ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 166 Number 4642 New York, N. Y., Thursday, October 30, 1947 Price 30 Cents a Copy

Danger of Our Buried Gold

By THOMAS I. PARKINSON*

President, The Equitable Life Assurance Society of U. S.

Commenting on rumors of higher gold valuation, Mr. Parkinson points out increase in price would cause further inflation of our money supply. Argues U. S. could return to gold standard.

Recent rumors, however unfounded, emanating from London to the effect that the United States Treasury would increase the price which it pays for gold from $35 an ounce to $50 an ounce have stimulated interest in the part now played by gold in our monetary and economic situation.

T. I. Parkinson

These rumors carrying the implication that we revalue our existing stock of gold and increase correspondingly the price paid for subsequent purchases of gold are so fantastic as hardly to deserve comment, and yet we have had a good deal of evidence recently that the government and those responsible for monetary policy when hard put

(Continued on page 27)

*Released through the Continental Press Syndicate, Brightwaters, N. Y.

Canada and the United States—Their Mutual Economic Problems

By JAMES D. MOONEY*

President and Chairman of Board, Willys-Overland Motors, Inc.

Mr. Mooney contends Canada's exchange difficulties are due to bilateral trade restrictions and restraints on free movement of goods and services. Lays situation to existence of inconvertible "soft currencies" and too many restrictions on U. S.-Canadian trade, together with high tariffs. Suggests re-examination of tariffs imposed when trade was multilateral. Urges free gold markets, multilateral trade and convertible currencies. Points out contribution of motor vehicle to higher living standards.

The peaceful relations between the United States, and Canada and the ease with which the citizens of either country and trade move back and forth across the border, are an example to the rest of the world. These mutual relations serve the best interests of the people of both countries. We have learned by experience that our interdependence is such that our own self-interests are best served by peace and keeping the channels of mutual exchange between us open and as free as possible.

James D. Mooney

In the United States our Canadian neighbors are admired and respected as vigorous, courageous, outdoor people. In Canada we find the culture of the old world and the vigor and progress of the new.

In spite of the many restrictions upon trade and commerce between these two countries, Canada is the best customer of the United States. In turn, the United States

(Continued on page 32)

*An address by Mr. Mooney before Federation of Automobile Associations of Canada, Quebec, Oct. 29, 1947.

The Right Kind of Tax Reduction

By HARLEY L. LUTZ

Professor of Public Finance, Emeritus, Princeton University

Asserting that taxation principles should be based on welfare and not politics, Dr. Lutz outlines a tax reduction program to promote general good while at same time preserving balanced budget. Stresses importance of encouraging expanding capital investment, and recommends income tax rates ranging from 12% in lower brackets and maximum of 50% in higher brackets. Contends permanent growth and prosperity cannot be obtained by "soaking the rich," and that with enlarged production under reduced tax rates, government revenue will not be impaired.

The failure to secure final enactment of tax legislation in 1947 has forced this important issue over into 1948. Some sort of tax legislation will be enacted next year, no doubt, over the presidential veto if necessary. But the fact that a presidential election is to be held in 1948 does not augur too hopefully for the kind of tax revision that will place the general welfare ahead of less worthy considerations. We have become somewhat accustomed in recent years to the expression "bi-partisan." The conduct of the war was supposed to be on this basis, since the lives and the resources of all citizens, regardless of party, were at stake. The conduct of our foreign policy has been on a bi-partisan basis, although with some occasional flies in the ointment. It has been suggested that the Taft-Hartley labor law be regarded and applied

Dr. Harley L. Lutz

(Continued on page 28)

EDITORIAL

As We See It

They Seem to Be Befuddled

The President has at length made up his mind to call Congress into special session. Obviously he has done so with reluctance. Congress is usually difficult in a general election year. This one will have almost two added months in which to make trouble for a President already beset with difficulties which appear far too profound and troublesome for his advisers to fathom. Yet it was evidently found politically necessary to "do something" about prices and about the situation in Europe.

The President has efficiently said only that we must evolve a program of action to conquer or control "inflation," by which term he evidently means high and rising prices particularly of items which are important in the family budget of low income groups. That is, so far as domestic matters are concerned. As for peoples abroad, we must prevent them from starving and ameliorate their suffering during the coming winter. Either the President's board of strategy has not yet made up its mind how it will undertake to do these

(Continued on page 36)

Domestic Credit Problems and International Financial Policy

By M. S. SZYMCZAK*

Member, Board of Governors, Federal Reserve System

After analyzing extent and causes of inflation, Federal Reserve Board member advocates reduction in our domestic consumption, if possible, by voluntary cooperation and a restriction of credit to increase output of scarce goods, with strict economy in consumption of scarce materials. Wants consumer credit kept in proper relation to goods available for purchase and international aid within limits so as not to burden our economy.

American financial policy confronts a serious dilemma. At home we face strong inflationary pressures; abroad we face world crises. Whatever we do to combat inflation in our domestic economy will affect the position of other countries. And whatever we do to alleviate the plight of foreign countries will react upon our domestic situation. These impacts may be favorable or unfavorable. The central problem of national policy is to reconcile the needs of our domestic and our international situations.

M. S. Szymczak

Extent of Inflation

All of you are familiar with the changes that have occurred in our domestic level of prices since the war. Prices of primary commodities at wholesale are currently more than 200% above prewar levels. Wholesale prices, not confined to basic commodities, are about 100%, and consumer prices—the so-called cost of living—60% above prewar. It is probably impossible to develop a wholly accurate measure of current inflation. Most of us will agree, however, that our dollar will buy hardly more than half of what it would in 1939 because of the inflation we have already experienced.

The fact that the process of inflation has made its most rapid strides in the past 15 months is particularly disquieting. Wholesale prices, for instance, have risen by about 40%, and consumer prices by 20% since June, 1946. The inflationary changes are both more rapid and more far-reaching than corresponding developments in this country following the first World War.

Domestic Causes of Inflation

The original source of our present inflationary situation is, of course, the war and its economic consequences. The expansion of our war economy was accompanied by a tremendous increase in the volume of currency and bank credit. Our total money supply (currency and demand deposits) increased almost threefold between the end of 1939 and the end of 1945—from $36 billions to $102 billions.

It is idle now to ask whether or not we could have avoided some of the present difficulties by following different monetary and fiscal policies during the war. From the point of view that had to be adopted during the war, our policies were completely successful. We aimed at and succeeded in raising our war production to levels that had been

(Continued on page 26)

*An address by Mr. Szymczak at the Evening Dinner Session of the Mid-Western Credit Conference, Chicago, Ill., Oct. 28, 1947.

Capital Formation—Life Line of Progress

By DON G. MITCHELL*

President, Sylvania Electric Products, Inc.

Warning sufficient capital is not being accumulated from private savings to maintain normal rate of industrial growth of U. S., prominent industrialist lays prime cause to taxation system which discourages investment and handicaps venture capital. Urges overall revision of taxation system and equitable tax reduction for all income tax payers. Sees main source of venture capital in retained and reinvested corporate earnings.

Capital formation is the life line of human progress. It is one of those basic things that no civilization can get along without. I mean just that, from the ground up.

A farmer can't use up all of his corn. Somebody has to save seed for next year's crop, or there won't be any crop.

Don G. Mitchell

A grazer can't kill all his cattle. Some animals have to be kept for breeding.

Neither can a hunting tribe kill enough game with their bare hands. They have to invest time, toil and skill in making weapons.

By the same reasoning, no nation—regardless of its social or political tenets—can dodge the universal need for capital—the "seed corn" of human progress. Soviet Russia today is acutely aware of her capital deficiencies. In addition to the endless five-year plans, which require saving from every citizen—in the form of belt tightening and more work—slave labor is used up on an unprecedented scale. To increase Russia's capital in the form of roads, reclaimed lands, raw materials and factories, some 12 million political and other prisoners are herded in the Hitler-type concentration camps.

In our own country, capital formation is, on the one hand, taken for granted, and, on the other, caricatured, misunderstood and penalized. No national economy can continue to do both.

Take England, for example. She over-controlled and overtaxed capital to such an extent that capital formation virtually ceased. So bad is her plight that a British labor government is now clamping down on labor's own freedom and taxing away $33 a month out of a family income of $113.

Writing in the spring issue of "Harvard Business Review" on "New England's Decline in the American Economy," Seymour Harris likened New England's economic position in this country to that of Great Britain in the rest of the world. I doubt that the situation here is that bad—at least you still eat well and can drive your car for pleasure.

However, it is true that New England has been falling behind the rest of the country in its economic progress. You cannot continue for long to buy more than you produce and pay in large measure for the excess from returns on past investments. Nor can you long continue to pay a higher proportion of the federal tax bill than other sections which

(Continued on page 30)

*An address by Mr. Mitchell at Annual Meeting of Associated Industries of Massachusetts, Boston, Mass., Oct. 23, 1947.

INDEX

Articles and News **Page**

Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, October 30, 1947

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)

Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Big Bull Market Ahead!

By JOHN LEEDS KERR
President Kerr & Co., Engineers

Engineer economist holds security holders who liquidated following recent pessimism, may miss biggest bull market in history. Asserts some inflationary elements are now permanent, general business will be satisfactory through 1948, and corporate profits will continue favorable. Declares labor and international situations are now greatly clarified.

The major risks confronting the investor today are not those of lower security prices. Instead, it appears to many astute market observers that the extremes in pessimism of recent months may have led some security holders to liquidate securities and thereby possibly miss the greatest bull market since 1929. In discussing the bearish viewpoint with Wall Street analysts, the writer finds that a majority of the pessimists do not anticipate that possible 1947-1948 lows will exceed 150 on the Dow Jones and it is generally expressed that subsequently an advance to 300 or more would be entirely within the realm of possibilities.


John Leeds Kerr

Thus, we see sound analysts who are willing to gamble on a maximum of 30 points on the downside as against a rally of possibly 120 points. Not only do the odds seem uninteresting, assuming that I were a gambler, but it is difficult for me to find anything in the present outlook which does not indicate materially higher prices for securities over the next year. In fact, I have reached conclusions on the business picture, based on extensive "on the ground" analysis which clearly indicates the imminence of perhaps the most extensive bull market in history.

Deflation Is Behind Us

The United States has been going through a period of transition for over a year. Private and institutional investors who have had to sacrifice common stocks purchased at higher levels have already suffered a deflation of assets and a depression of mind. Some business dependent on wartime prosperity have failed, and the last year has been a difficult time for those individuals who expected the wartime abnormalities to last forever. Regardless of peak production in certain lines of activity, we have been in a period of adjustment since August, 1945.

In the last quarter of 1946 retail sales of soft goods began to decline as durable goods again became available. This led many analysts to assume that we would have a "depression" or "recession" because these soft goods sales would not be maintained at their wartime level. However, in the first half of 1947 there was no appreciable decrease in unit sales, as durable sales offset soft goods declines. Noting that retail sales have remained relatively high in spite of predictions to the contrary, several publications are now reversing themselves by reporting a buying upswing.

Price-cost relationships have been distorted in many publicly regulated industries and there has been very little prosperity for the railroads in over a year. Strikes and other work stoppages crippled large concerns such as General Motors, Allis-Chalmers and Kennecott Copper in 1946. Unfortunately, the political factor of OPA was injected into the situation and this militated against a normal and fairly rapid restoration of price-cost relationships in nonregulated industries. OPA for political reasons even had the temerity to advise the ICC against increased rail rates. However, it is believed that a majority of the necessary readjustments have already been witnessed. We have been in a psychological depression and a period of readjustment which is probably nearing an end and recovery is now a logical prospect.

Basic Bullish Fundamentals

In reviewing basic fundamentals it becomes increasingly apparent that: (1) While certain deflationary trends are now apparent some degree of inflation in the nation's price structure is certain to be permanent. (2) Business activity generally will be at a satisfactory level this Fall and through 1948. (3) There is every expectation that corporate profits for the most part will be quite favorable. These conclusions have been derived from the following factors:

Certain prices may be too high (particularly farm products) but other prices seem far too low. Radical inflation based on wartime shortages is no longer a threat. Mass production can only cure inflation in prices due to shortages but it cannot alleviate any permanent inflation due to higher costs of production as the mass output itself puts new money in circulation and adds to the inflation potential. It is quite possible that farm commodity prices especially the grains, may decline but this is needed if we are to have sustained prosperity as such prices have been disproportionately high.

Demand is so great for all types of goods that one should not become concerned over normal replenishment of inventories and filling of pipe-lines with manufacturers goods. The buyers market is the natural market and we are all going to have a long period of starvation if we have to wait for the "sellers markets" which may not come until the next wartime inflationary period. Early

(Continued on page 29)

Comparison of 1919-1920 and Now

By KARL W. SCHLUBACH

Economist, Bache & Co., Members New York Stock Exchange

Writer reviews conditions which produced recession following First World War and points out present conditions are not similar, because: (1) there is now no credit stringency or tight money conditions; (2) present price increases are producing no serious obstacle to sales; and (3) present wages and consumer income in relation to prices are not out of line as they were in 1920.

There is no doubt that a great many people are obsessed with the idea that we will repeat the post World War I pattern in our economy and that this belief has been one of the contributing causes behind the cautious attitude displayed by the stock market in the past year. Thus, it is generally assumed that we will have a recession in business activity accompanied by lower prices and widespread unemployment. This line of reasoning has something to be said for it but it must be based on more than the general theory that history always repeats itself. A study of the pattern of the decline which which set in during the period 1919-1920 will reveal a set of events and a series of forces at work at that time which do not exist at present and any student of business cycles will hesitate to draw too close an analogy between then and now.

K. W. Schulbach

When the stock market broke on Nov. 12, 1919, it started a decline which was to continue until August, 1921. The postwar bull market had been built largely on hopes which suddenly threatened not to materialize. The tremendous backlog of demand was there but somehow the economy would not function smoothly. Strikes and threats of strikes was bedeviling all industry. Steel production had been plunged to 40% of normal in September by a strike and an estimated two million tons of production out of an annual total of 39 million had been lost. A nationwide coal strike was called on Nov. 1 in defiance of a Federal Court injunction and a certain John L. Lewis was vying for the spotlight with Samuel Gompers. Railroad unions were making wage demands on the already harassed government - operated railroads and a longshoreman's strike in New York was tying up a half a billion dollars' worth of goods in the harbor of New York.

However, the immediate causes for the break in the market were more varied. Firstly, the Federal Reserve Board in order to stem speculation in the stock market raised the rediscount rate from 4% to 4¾% on Nov. 4 and urged the banks to exercise greater selectivity in making loans. Money had ruled very tight and the speculative mania in the Street had drained a good deal of the funds away from commercial channels. Call money ranged from 6% to 20% on a single day and on the day of the break soared to 30%. On this day General Motors declined 68½ points from 348½ and a total of 126½ points from the previous week's high. However, at 348 it was selling at about 10 times the 1919 earnings. By next year earnings had shrunk to about half that despite the fact that automobile production doubled to two million units. Railroad earnings were on a decline and had shrunk from the wartime peak of $117 million to $74 million in 1919.

Credit Stringency of 1920

The credit stringency was to continue until the fall of 1920. In August of 1920 the 60-90 days time loans on securities carried an 8¾% interest rate and the rediscount rate reached a peak of 6½% in March of 1921. Secondly, prices and wages continued to spiral upward and industry's profit margin was impaired. Also the sudden rise in the cost of food made serious inroads in consumer purchasing power. In November of 1919 butter was selling around 75 cents per pound and eggs at $1 per dozen. Spot cotton was quoted at 42 cents per pound at Memphis, lard sold for 28 cents per pound and copper for 20 cents. Yet wages and salaries had scarcely kept abreast of these prices even though they were over twice the prewar rate. Thus the average hourly earnings in all manufacturing industries rose from 22.3 cents per hour in 1914 to 47.7 cents in 1919. It is interesting to note that latest hourly earnings statistics show that in July this year they reached a postwar peak of $1.234. Yet, on the other hand, food prices are now just slightly above the peak they reached in 1920. It becomes readily evident that food prices were considerably more out of line then than they are now in relation to wages. The white collar class must have suffered a good deal more, too, as the prevailing rate for a bookkeeper in New York was $35 per week and stenographers were working for $15 to $20 per week.

Unlike the present, no serious attempts were made by the government to lower prices. President Wilson recognized the problem in his message to Congress, but his only recommendation consisted of a plea for more production. Newspapers did not headline the cost of living as they do now but sporadic outbreaks of consumer resistance became more frequent in the fall and winter of 1919. For example, the railroad brotherhoods announced the purchase of a number of clothing factories and promised to operate them cooperatively and to bring down the cost of clothes 25-50%. And on May 13, 1920, the Mayor of New Orleans proclaimed "Old Clothes Day" as a protest against the high price of clothes.

Industrial production continued at the high wartime rate until the summer of 1920. Construction reached the peak of 207% of the 1913 rate in October, 1919. Following a seasonal winter decline, it reached a second peak of 134% of the 1913 average in April, 1920, only to plunge down to 57% by November. Exports soared from $3.2 billion in 1919 to $8.2 billion in 1920. By 1921 they had shrunk to $4.5 billion. At the peak they represented about 11.8% of the national income of 1920. This year they will represent about 7.5% of national income.

Signs of 1920 Recession

The first real signs of a recession began to appear in the late spring of 1920 when a wave of department store sales swept the country. A late and wet spring coupled with a silent wave of consumer resistance found most stores saddled with topheavy inventories; 20 to 30% markdowns were not uncommon. In some instances striking employees in industry suddenly found themselves confronted with a lockout by managements and unemployment in-

(Continued on page 22)

Letters to the Editor:

Comments on Technical Market Formulas

Correspondents write Editor regarding Mr. May's attack on Dow Theory. Garfield A. Drew holds there are certain characteristics in market behavior common to major trend changes. John E. Loshar says Mr. May has left open door to Dow followers, and James S. Linburn of Neuberger and Berman, asserts Mr. May has done a real service in pointing out weaknesses in chart systems.

Editor, Commercial and Financial Chronicle:

This letter is my personal opinion of the "chart articles" of A. Wilfred May, recently appearing in your publication.

A bit of my own background on this subject may help point up my remarks. Originally, I took a course on charts primarily to know what was back of the "lingo" of the chartists, and also to see if it could be of assistance to me in judging the future. I have also read a number of books on various theories, including Dow. I kept charts of various types, tried to follow "rules" and make estimates as to future action, not only of the market, but also of individual issues. My conclusion was simply that if my judgment were based solely on charts, I would lose money.

The basic argument of Mr. May's articles that the past in and of itself does not predict the future is sound. Mathematical formulae alone prove nothing. The extent of the following of, let us say, the Dow Theory may have some effect on the market, even though it does not indicate which securities should be traded. Furthermore, the fact that the market must have had a substantial move before there is a confirmation, detracts percentagewise from its use as a tool.

Cycle theories have the objection in my mind that the length of time of any phase varies to such an extent that extreme caution must be used in basing conclusions on prior periods. I do feel, however, that an exceptionally long movement in one direction should set an investor to check carefully his analysis. Psychologically, people, as individuals, are influenced by long moves and let emotions rather than reason govern their actions. The odds in favor of mistakes under such circumstances would seem to be very high.

Ratio theories always give me the impression that the originators either had unsatisfactory results with whatever system they had been using and decided to try something new; or that they were trying to merchandise something new on the basis that there always are people who are looking for something different. Neither of these reasons give me confidence.

Formula timing has the objection indicated, namely, that the investor will eventually be out of the market. Carpenter, in his book, makes out a case for it, but his examples are for a limited period. The one thing that intrigued me as I first studied it was my observation that while many people know when to buy, very few know when to sell. Once having gotten hold of something, people seem to hate to let go. To go short of the market, even as a hedging operation, is completely outside the general experience. I originally had hoped that the formula plan might help to overcome this human quirk.

I do not wish to imply that charts cannot serve a purpose, but certainly Mr. May has done a real service in pointing out the basic weaknesses in certain well publicized chart systems.

Very truly yours,

JAMES S. LINBURN.

Neuberger & Berman,
160 Broadway,
New York 7, N. Y.
Oct. 27, 1947.

Editor, Commercial and Financial Chronicle:

As the author of a fairly well-known book on technical market methods ("New Methods for Profit in the Stock Market," published in 1941) I was extremely interested in Mr. May's articles on the subject in the "Chronicle."

Although I agree with almost everything he says, I nevertheless also feel that he fails to give the devil his due.

* * *

Since the Dow Theory is singled out as a particular target, this will illustrate my contention as well as anything. I agree with Mr. May that its "signals" do not have the slightest element of forecast, and also that the esoteric jargon and varying interpretations of its principal exponents have made it somewhat ridiculous. But, as I pointed out in my book, very simple and definite rules which a Samuel Moment worked out some years ago eliminate these difficulties and hew to the line of Dow's original simple concept. It was Hamilton who really added all the frills.

More important however, is the pragmatic test of results. After all, it is inherent in the nature of the Dow Theory or any similar method that it must be "right" on the big moves and, by the same token, subject to whipsawing in the other erratic periods.

Unless stocks settle down to fluctuating within the same price range indefinitely and cease to have important broad trends—and it is hardly unjustified "forecasting" to assume that there will be broad trends—a consistent following of the Dow Theory will just as surely produce good profits in the long run as it has in the past.

Certainly, as Mr. May points out, it will miss a lot of the potential profits to be had, but on the other hand, is there anything

(Continued on page 43)

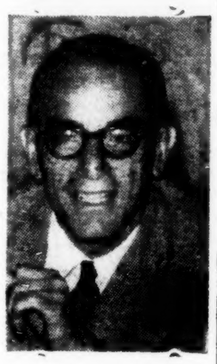
Jet-Propulsion In the Stock Market

By A. WILFRED MAY

Momentum generated by chart followers entails wide economic, social, and political repercussions.

(Part Four of a Series on Forecasting)

In preceding articles we have analyzed the direct effects of "technical" forecasting systems on their participants. Let us now broaden our inquiry to note their effects on the structure of the market, as well as their wide repercussions in the nation's economic, business and political spheres.



A. Wilfred May

For demonstrating such impact in the market place, and the uniformity of behavior of the most popular of these techniques—the Dow theory—there is available a most authoritative, objective, and up-to-date research study. This is contained in the voluminous and thoroughly documented report recently issued by the Securities and Exchange Commission, which took a full year to compile, analyzing from various angles all trading on the New York Stock Exchange which took place during the day of its major break on Sept. 3, 1946.

The preceding and single day's behavior of the market is technically described by the SEC in terms of the averages, as follows: "The Dow-Jones average rose from 92.92 in April, 1942, to 145.82 on July 14, 1943, declined to 129 on Nov. 30, 1943, and rose to 206 at the beginning of February, 1946, dropped to 186 at the end of February, reached a 15-year high of 212 in May, and then declined to 189 on Aug. 30, the last trading day before Sept. 3. After the Labor Day weekend, the Dow-Jones average of industrials on Sept. 3 opened slightly below the previous close and pierced the February low of 186.02 at 11:16 in the morning. **At 11:38 Dow-Jones announced that at 11:30 the industrial average was close to the February low of 186.02 and at 12:12, when the 12 o'clock averages were printed, the extent of the break-through was made known. This break-through to the many followers of the Dow theory indicated the existence of a bear market. The average closed at 178.68."**

The sharpest decline in the market with the day's volume of trading, the report continues, occurred in the periods immediately preceding and following publication of the news of the break-through of the average.

The market then continued to fall after Sept. 3, the average reaching 163.12 on Oct. 9, but by the end of the year retraced the gap to the Sept. 3 closing price. It is now actually five points above that close on the day of the break.

The Sellers' Reasons for Acting

The Commission carried out the job of analyzing the character of the trading by conducting 622 interviews, 600 of which were selected at random from the list of transactions recorded during the day and 22 others who seemed to be among the 50 largest buyers or sellers during the day; asking the reasons for their having acted as they did, and why they chose that particular time for their transaction. As reported (page 17): **"The two main reasons given for sales by the public were the price decline during the day and the effect of the Dow theory. The price decline during the day was the motivating force for an estimated 45% of the volume of public sales, while the break or expectation of the break of the Dow-Jones average of industrials through the 'resistance level' was the immediate cause of an estimated 20% of public sales."**

It must be emphasized that these two factors with the next most important reason stated—that is, the earlier price decline during the Summer—are all variations of the same element, *self-extension and acceleration of a "technical" trend.* This mechanistic trend reason was 50 times as preponderant as was broker or investment adviser influence; had 37 times the effect of a hot bear tip of the time from Walter Winchell (who thereby seemed to command correspondingly greater respect than did the professional broker or investment counsel); and 22 times as important as the investor's own opinion that the "market was too high."

The Commission adds these revealing conclusions regarding the effect of Dow thinking both before, during, and after, the break-through (page 18): "Many other factors made their contribution to the price decline prior to Sept. 3, but the influence of the Dow theory is especially noteworthy. There appears to have been some selling even prior to Aug. 27 by persons anticipating the actions of the Dow theory, but on that day, after the break-through of the July lows, Dow selling first became appreciable."

Putting the Chart Before the Horse

And there follows the SEC's observation, noting the highly speculative technique of betting on other speculators' subsequent behavior, that "Not all persons who sold as a result of Dow theory

(Continued on page 37)

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Over-all industrial output showed a slight increase the past week with operations in many factories scheduled at peak levels. Small increases in the production of some types of much wanted industrial equipment were reported and unemployment claims for the week ended Oct. 4 declined to 780,000. This was the first time in over two years that claims have dropped below the 800,000 mark.

Of much significance was the action taken last week by President Truman in summoning the return of Congress to a special session on Nov. 17, next, to consider high prices on the domestic scene and the highly important problem of aid to Europe.

Just what recommendations the President will make to Congress are at this time largely speculative, but a reference to his more recent pronouncements relative to the matter would indicate that a restoration of rationing and price control will not be among them. A close scrutiny of his remarks would lead one to believe that an allocation system might be under consideration.

At a meeting on Wednesday of last week in Cleveland, Robert W. Wolcott, Chairman of the Steel, Foundry & Scrap Industries' Committee for Expediting Iron and Steel Scrap, told officials of the steel, foundry and scrap industries and the government that a calamitous blow to steel production in the United States and to plans for aiding Europe threatens unless iron and steel scrap is collected before the crucial winter months.

The warning, it is reported, gave impetus to a joint industry-government drive to unlock stores of desperately needed iron and steel scrap required to keep steel mills operating at high capacity.

The Committee has been designated by the Army to act as an official advisory group on means of hastening the return to the nation's reservoir of scrap now held at Army installations. The Navy and War Assets Administration also are cooperating officially with the scrap committee.

In the week retail volume rose slightly above the level of the previous week and moderately exceeded that of the corresponding week a year ago. Unseasonably warm weather in some areas diminished consumer interest in heavy clothing with expenditures for food continuing to run very large. It was further noted that low quality merchandise of all types remained unpopular.

Purchasing by retailers was substanital with wholesale volume in the week also slightly above the levels of both the preceding week and the corresponding week a year ago. Some retailers have revised their buying policies, it was reported, and cancellations of overdue orders became more frequent.

CURRENT STEEL OPERATIONS DIP 0.1% BELOW PRECEDING WEEK

Temporarily, at least, the reluctance of large consumers to go overboard on the current prices has slowed up the rambunctious scrap market this week, according to "The Iron Age," national metal-working weekly. Scrap brokers throughout the country found it difficult covering orders taken at high prices last week, not to speak of covering a small amount of sales at "technically" lower quotations this week. Consumer efforts to depress the price of local scrap are being rapidly offset by importation of substantially greater amounts from out-of-district areas. At Pittsburgh, this latest market trend is adequately pictured by the purchase of a small amount of scrap at a lower price, while scrap being delivered to the Pittsburgh district from the East and Southwest is commanding prices as high as, if not higher than, delivered prices of a week ago.

Because of a wide variety of factors in the current markets at Pittsburgh, Chicago and Philadelphia, "The Iron Age" scrap price composite this week is up 75 cents a ton to a new historial record of $42.58 a gross ton. The advance was considerably less than has occurred during the past two weeks, and some sources are certain that the upward spiral has been arrested. This view, however, is not uniformly held in scrap circles.

Out-of-district activity has been highlighted this week by higher quotations at Boston, where the average price of heavy melting steel is up $3 a ton from a week ago, and at New York where the average advance has been $2 a ton. Activity has also picked up in the Southwest, and transactions immediately bordering major consuming districts have also quickened, the above trade authority reports.

Major scrap consumers have found that No. 1 heavy melting steel—a prime grade—has almost disappeared from some markets under that name. Considerable tonnages of industrial scrap and various types of low phos grades are moving at premium prices when compared with heavy melting quotations. This overgrading, the magazine points out, is bound to be common in a market like the present one.

Another disturbing factor in the scrap market is the certain knowledge that some time in 1948 the Marshall Plan will call for about 2 million tons of scrap to be exported from this coun-

(Continued on page 35)

Firm Name Changed to Smith, Polian & Co.

OMAHA, NEB.—Announcement is made of the change in form name of Smith, Landeryou & Co., Omaha National Bank Building, to Smith, Polian & Co. Officers are Harry F. Smith, President; Harold O. Polian, Vice-President and Treasurer; and Garnette C. Miles, Secretary. Mr. Polian has been associated with the firm for 20 years.

Schweickhardt, Landry Formed in New Orleans

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Schwieckhardt, Landry & Co. has been formed with ofices in the Hibernia Building to engage in the securities business. Partners are Mrs. Leonie F. Landry, Vincent B. D'Antoni, and Erwin R. Schwieckhardt. Mrs. Landry and Mr. Schwieckhardt were formerly partners in D'Antoni & Co.

Sales of Savings Bonds Exceed Redemptions

During first nine months of 1947 sales of all series exceeded redemptions. Series F and G show largest gains.

According to a statement furnished the "Chronicle" by Morris M. Townsend, Director of Banking and Investments of the Treasury Department Savings Bonds Division, sales of Savings Bonds are still exceeding redemptions, and the net gain in the first nine months of 1947 exceeded by $613,447 the gain in the same period of 1946. Sales are stated at issue price, redemptions at current redemption value. 1946 sales include $300 million January carryover from the Victory Loan.

Morris M. Townsend

The tables comparing the current with the previous year follows:

	Jan.-Sept. 1947	Jan.-Sept 1946
Series E, F and G	(000's omitted)	
Sales	$5,307,488	$5,878,784
Redemptions	3,551,691	4,736,434
Net gain	$1,755,797	$1,142,350
Series E		
Sales	$3,191,930	$3,475,394
Redemptions	3,014,987	4,283,705
Net gain	$176,943	*$808,311

*Net loss.

Social Theories and Progress

By JAMES A. HOWE

After reviewing causes and remedies of the prewar depression, Mr. Howe compares U. S. economy with present socialistic activities in Britain and elsewhere. Stresses factor of increased production as means of raising living standards and preventing unemployment, but warns production must be adapted to consumers needs and be marketable. Lays down principles for proper social organization, and concludes, by balancing powers within the social framework, depressions and unemployment can be mitigated.

We are confronted by shortages of residencies, various types of manufacturing buildings and equipment, durable consumers' goods, and other products. These shortages are a heritage not only of war but also of the depression of the 1930's. War-time scientific progress has brought into sight many new products with great potentialities. Aggregate private indebtedness is little, if any, greater than at the end of 1929. These are reasons for anticipating a peacetime era of renewed industrial advance. Although it is not likely that our forward progress will be uninterrupted, such an era may well come to pass, if reasonable solutions are found to foreign problems, and if our social theories develop in accordance with the distinctive features of American tradition.

James A. Howe

Causes of Depression

If, in the 1920's, oversavings, or any unusual division of the gross national product or the national income among their grand classifications can be said to have been causes of the depression of the 1930's, the case was not clear enough to permit any confidence forecast. It seems likely that the severity of the depression can be better accounted for by conditions of detail buried in the overall statistics. Fluctuations in general business activity seem to be due to a great variety of distortions or variations in economic interrelationships of detail. The degree of these fluctuations is probably a function of the particular nature, magnitude, and degree of these distortions or variations which do not repeat themselves exactly in form, degree or timing. A few of such abnormalities of detail were the following:

(1) Overexpansion of credits against inflated values of securities and real estate in the 1920's. Since such values were predicated upon the expectation of a further increase in earnings rather than upon those then existing, the realization that increased earnings were not being attained produced a spiral of liquidation, which made it next to impossible to raise new capital easily. Expansion of plant and equipment was impeded even when new products were involved. Credit for other purposes was less freely sought and less freely granted.

(2) Many foreign loans were predicated upon conditions at least no worse than those then existing, and in some cases upon anticipation of abatement of interferences with normal exchange relations. Evidence that such improvement had become unlikely caused not only a sharp reduction in the rate of extension of new foreign credits, but an attempt to reduce old ones when maturities permitted.

(3) Special demands arising from wartime shortages had been eliminated, and in some cases momentarily excessive supplies had been created—particularly in farm products.

(4) A number of extraordinary situations of unbalance existed, such as those created by the attempt to collect reparations from Germany, and the unbalanced status of London's international accounts.

The cycle of liquidation ran to great extremes. It abated only when values were extremely low, many unsound debts had been liquidated or readjusted, and the abandonment of French claims to reparations from Germany made it possible to restore a sound credit structure in Europe.

Public Measures to Overcome the Depression

In this country the most widely publicized efforts to stem the liquidation and to restore business activity took three principal forms:

(1) The use of the Government's credit to ease the process of liquidation.

(2) A policy of extremely low money rates to discourage savings, facilitate borrowing, reduce business costs, and stimulate capital values.

(3) The use of the Government's credit to provide money which would flow into the stream of current funds available for expenditure by individuals, and to increase the volume of bank deposits and currency in circulation. To accomplish these objectives, the Government spent much more than its income, borrowing the deficit, and used the proceeds for direct relief, various construction programs, and activities representing a cross between a direct dole and productive enterprise.

Those measures were excellent in purpose, and many were excellent in both purpose and execution. Others may be criticized unfavorably.

The monetary measures were in many respects unnecessarily extreme. In the 1930's member bank reserves were increased by several times the sum which might have represented a normal rate of growth thereof. All reasonable standards in this respect were thrown aside. Reserve requirements were increased to reduce the abnormality, but the situation remained so unprecedented as to arouse doubts, fears, and uncertainties which offset much of the beneficial influence of low money rates. The tremendous inflation of reserves and more moderate inflation of deposits were not translated into a boom, as many had anticipated. The demand for new capital for expansion remained subnormal, and never at any time in the 1930's showed confident vitality.

Most of the government-sponsored construction programs involved a subsidy, direct or indirect. They did not supply at once goods, employment and markets, while carrying their share of the heavy burden of government. They added burdens to other industry, and held forth the prospect of still greater burdens. Increases in government debts and expenditures for other purposes had the same connotation. Political sentiment favored more steeply graduated taxes. The prospect of more steeply graduated, as well as more taxes, was discouraging. Taxation on the basis of "ability to pay" constitutes a system of penalties on business success in proportion to its degree. In terms of monetary fines personal business success came to be one of the most heavily penalized acts.

These measures were accompanied by more centralization of government powers over industry. Collective action through government seems to have been most practical and effective when applied only to limited activities and functions. Central political planning and control of ordinary activities such as general business administration seem to have been slow, cumbersome and restrictive. They appear to have delayed, narrowed, and in some cases, even precluded individual and group planning. They prevented companies from going ahead as

(Continued on page 30)

Curb Inflation and Provide Foreign Aid: Truman

President, in radio address, tells reasons for special session of Congress. Warns of repetition of 1920 depression and says France and Italy must receive food and fuel before end of year to avoid economic collapse and totalitarian rule.

President Harry S. Truman, in a radio message to the people on Oct. 24, expanded on the reasons which impelled him to call a special session of Congress to meet on Nov. 17. In his address he linked the need to curb rising prices at home, while affording emergency relief before the end of the year to devastated and occupied territories, particularly France and Italy. The text of the address follows:

President Truman

My Fellow Countrymen:

I have called the Congress to meet on Nov. 17 to consider the problems of high prices at home and emergency aid abroad.

These are questions of vital importance to all of us. I want to talk to you frankly tonight about both of these problems.

Since V-J Day we have moved steadfastly toward two goals. We have sought peace and prosperity —prosperity for all our people, peace for all the world.

As we measure our progress toward these goals and chart the course ahead we find that recent events have raised new and dangerous obstacles in our path.

Our domestic prosperity is endangered by the threat of inflation. The peace of the world is endangered by hunger and cold in other lands.

These obstacles must be overcome by prompt and courageous action. Legislation by the Congress is essential. The need is too pressing—the results of delay too grave—for Congressional action to wait until the next regular session in January.

Domestic Inflation

Let me speak first about our domestic prosperity.

In many ways we are now more prosperous that we have ever been. More workers have jobs—and at better wages—than at any time in the past.

Farmers are receiving a greater share of our national income than they have in many years. Manufacturers and retailers are enjoying record business and record earnings. We are producing more goods for civilian use than ever before in history.

But these signs of prosperity do not tell the whole story. Although production is high, prices are shooting up.

Although nearly every one is employed, many people cannot afford essential items. Although national income has reached a new high, the buying power of many people is shrinking.

A few figures—and they are startling figures—show how the cost of living is going up.

Since the middle of 1946 this is what has happened:

Clothing prices have gone up 18%; household furnishings have gone up 18%; food has gone up 40%. The average for all items is up 23%. And the cost of living is still climbing. In the last three months it has climbed at a rate of 16% a year.

Wholesale prices are also increasing. Since the middle of 1946, textiles have gone up 30%; metals, up 35%, and building materials, up 41%. These increases in wholesale prices affect every industry and trade and they will eventually be reflected in retail prices.

For some of our people the increased cost of living has been offset by increased incomes. But for most of our people, increases in income are falling behind increases in the cost of living.

Savings Being Used

Millions of families of low or moderate income are already victims of inflation. These families are using up savings, they are mortgaging their future by going into debt. They are doing without things they should have.

I know the worries of the breadwinner whose earnings cannot keep up with the high cost of living. I know of the difficulties of the housewife who tries to stretch the family income to pay for groceries and clothes and rent. I know how hard it is to skimp and save and do without.

When so many people are not sharing fairly in prosperity the road is being paved for a recession or a depression.

None of us can afford to overlook this danger. Farmers will remember how they suffered after 1920 because price inflation was followed by a collapse. Businessmen and bankers will recall how they suffered after 1929 because wild speculation was followed by the depression. Even those who are prosperous today are prospective victims of inflation tomorrow.

Inflation must be stopped before it is too late.

It is within our power to stop it. Our economy is basically sound. It has been immensely strengthened in recent years. The average buying power of our people today is 40% higher than it was in 1929. But we are losing some of this gain as rising prices pull away from incomes. We can prevent further loss and can even go on to new gains if we use our economic strength wisely.

Cause of High Prices

The major cause of high prices in this country is the great demand among our own people for available goods. An attempt has been made to place the blame upon our foreign aid program, but this is not borne out by the facts. During the war we learned that we could improve our standard of living with less than 50% of our output available for civilian use. At present, even with current exports to all countries, a far greater per cent of our production is available for civilian use. With sound policies, we can protect our own standard of living and carry on a substantial foreign-aid program at the same time.

We now have—and will continue to have—enough food and clothing and other goods in the United States to meet our needs. But excessively high prices mean that these goods are not being distributed wisely and fairly. High prices ration the essentials of life by squeezing out the less fortunate of our citizens. We can meet this problem only by bringing prices into line with the incomes of our people.

In our free-enterprise system we place major reliance upon voluntary action by businessmen, farmers, workers and consumers. That is why I have repeatedly urged voluntary price reductions.

But the responsibility of government extends beyond aiding voluntary action. The government must respond to the needs of the people.

The American people now have a compelling need for protection from the dangers of price inflation and the rising cost of living. They recognize this need and are asking for the protection to which they are entitled. The government must assume a larger share of the responsibility for putting an end to excessive prices and the hardships and dangers which accompany them. For this purpose, prompt enactment by the Congress of comprehensive legislation is necessary.

This, then, is one reason why I am calling the Congress into session on Nov. 17. When it meets I shall recommend a program for dealing with inflation, high prices and the high cost of living. Adequate measures, enacted in time, are necessary to correct the present situation.

Our Foreign Policy

Let me turn now to the other reason for calling the Congress into session. This is the problem of hunger and cold and human suffering abroad. It is the problem of men and women and children who look to us for help at this crucial time.

We are following a definite and clear foreign policy. That policy has been, is now, and shall be to assist free men and free nations to recover from the devastation of war, to stand on their own feet, to help one another and to contribute their full share to a stable and lasting peace. We follow that policy for the purpose of securing the peace and well-being of the world. It is nonsense to say that we seek dominance over any other nation. We believe in freedom, and we are doing all we can to support free men and free governments throughout the world.

In furtherance of this foreign policy, we now have under consideration the part which the United States should play in aiding a long-range recovery program for western Europe. This plan presents great hope for economic security and peace in that vital part of the world. It will take some time to complete the consideration of this plan and to make all the important decisions required for putting it into effect.

However, a period of crisis is now at hand. The perils of hunger and cold in Europe make this winter a decisive time in history. All the progress of reconstruction and all the promise of future plans are endangered. If European natives are to continue their recovery, they must get through this winter without being crippled by economic paralysis and resulting chaos.

Emergency Aid to France and Italy

In advance of our decision on the long-range European recovery plan, we must help some nations through this immediate crisis. The most imminent danger exists in France and in Italy. If the economies of these countries collapse and the people succumb to totalitarian pressures, there will be no opportunity for them or for us to look forward to their recovery so essential to world peace.

Their first need is food. Exceedingly bad weather this year has caused the worst crops in western Europe in a generation. Crop failures in France — the worst in 100 years—and in Italy make it necessary for those countries to import half the grain they need to live on during the coming months.

The other major shortage is fuel. Fuel supplies were depleted by last year's severe winter. War damage to railroads and the reduced efficiency of miners laboring on an inadequate diet have

(Continued on page 38)

Public Utility Securities

Indianapolis Power & Light

Indianapolis Power & Light is planning a $35,000,000 construction program covering the period 1947-50. Of this amount roughly half will be met through depreciation and amortization funds, surplus earnings, etc., while funds must be raised for the other half. The company is planning to do this by issuing roughly equal amounts of bonds, preferred stock and common stock. Stockholders of record Nov. 5 will receive the right to purchase 214,451 shares of additional common shares on the basis of one new share for each four held. Rights will expire Nov. 19. Bids to underwrite the sale of unsubscribed stock will be received Nov. 3.

Plans have not finally crystallized for the sale of the preferred stock. However the company has registered 50,000 shares of additional preferred ($100 par) and plans to negotiate for the sale of this stock in the near future. Judging from recent market trends, it is estimated that the dividend rate on the new stock might approximate 4¼% compared to 4% on the 100,000 shares now outstanding. The bond issue may be deferred for some time and if the company should decide not to issue preferred stock currently, it is understood that the bond issue may be increased to $7-8,000,000.

The common stock has apparently suffered marketwise from the proposal to issue rights, as is usually the case these days. The stock is selling recently around 24 compared with this year's range of 30-23 and last year's 36-23. The stock has been traded since 1940 and has been on the Big Board since 1941. The company was originally controlled by Utilities Power & Light Corp. (now Ogden Corp.), but the stock was sold to the public in 1940 at $24 per share—exactly the same as the recent price.

The dividend rate was raised from 30 cents quarterly (where it had been maintained for four years) to 35 cents early this year. However, a 10 cents extra was paid Jan. 15, and the Oct. 15 dividend was raised to 37½ cents. It is understood that the company plans to continue the present indicated $1.50 rate. On this basis the stock currently yields about 6¼%.

In 1946, $3.31 a share was earned compared with $1.93 in the previous year. In the 12 months ended July 31, 1947, earnings adjusted to the current financing (including a full year's dividend on the proposed new preferred share, with an estimated $4.25 dividend rate) approximated $2.70 a share. However, fuel costs have increased substantially and earnings for the calendar year are estimated at $2.58 pro forma. On a conservative basis, Stone & Webster have estimated earnings for 1948 at $2.27 and for 1949 at $2.64. These earnings are considered ample to support the $1.50 dividend rate. In addition, the company is charging (over a 35-year period) amortization of plant account acquisition adjustment amounting to $215,928 per annum or about 20 cents a share.

Indianapolis Power & Light obtains 92% of its revenue from sale of electricity in Indianapolis, the suburbs, and adjacent areas which are largely rural in character; the remaining 8% is mainly steam sales. Residential sales account for 34% of electric gross, commercial 26% and industrial 35%. The company produces practically all its own electric requirements from steam generating plants. Based on an 80% power factor, present capacity is about 256,000 kw. The company's four-year construction program includes the installation of about 115,000 kw. capacity (35,000 by the end of 1947, 40,000 early in 1949, and another 40,000 in the latter part of 1950). Thus generating capacity will be increased 45% although it is currently ample to take care of peak loads. The company is growing rapidly and has a backlog of potential customers.

Residential rates are in the neighborhood of 3 cents per kwh. and annual usage runs close to 1,500 kwh. Due to substantial write-downs in plant account, the rate of return figured on original cost less depreciation is very high—about 8.8%. However, rates were substantially reduced a year ago. With current reproduction costs far above original cost, and with operating costs rising sharply, most State Commissions are no longer pressing for rate reductions and it is understood that the Indiana Commission does not plan to ask the company for any further cut in residential rates at this time.

One Way to Begin

"It required the thrift and savings of many a person, native and foreign, to provide the funds which built our great transportation system, our huge steel industry, our giant oil plant, our magnificent farm, industrial, mining and business structure. It took thrift and savings, together with indomitable courage and energy, to develop our vast natural resources. It took thrift and savings, together with tremendous character and vision, to make our nation what it is today. And it will take thrift and savings, together with constant ingenuity and stamina, to conserve our remaining resources to enable us to continue to be a great nation.

John W. Snyder

"At no time in our history has it been more important for us, as a nation and as individuals, to conserve our resources; for, both at home and abroad, we face large responsibilities which we cannot rightly evade."

—Secretary of the Treasury, JOHN W. SNYDER.

One of the ways in which we could conserve our resources is to reduce annual Federal expenditures to, say, $25 billion, and do so without delay.

If we are to keep the good work up, however, we could not be satisfied with such extravagance indefinitely.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Industrial Equipment—Study in the current issue of **"Fortnightly Market and Business Survey"**—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Also in the same issue are an analysis of **Bucyrus-Erie, Youngstown Sheet & Tube,** and **30 Capital Goods Stocks.**

Inflation—Discussion of current factors in **"Weekly Financial Letter"** — Newhard, Cook & Co., Fourth & Olive, St. Louis 2, Mo.

New York Banks and Trust Cos. —62nd consecutive quarterly comparison of leading banks and trust companies of New York—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

New York City Bank Stocks—Earnings comparison for 19 stocks for the third quarter of 1947—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Railroad Developments of the Week — Current developments in the industry—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a memorandum on **New Orleans, Texas & Mexico.**

Readjustment in Corporate Bonds—Discussion in the current **"Fortnightly Investment Letter"**— H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

The "Letter" also contains brief data on **Kansas City, St. Louis & Chicago; Minneapolis Gas Light Co.; International Hydro-Electric System;** and discussion of yields from **Medium Grade Rail Issues.**

Security and Industry Survey—An analytical guide for investors issued quarterly—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Southwestern Industrial Preferred Stocks—Comparison in recent issue of "Current Quotations and Topics"—Rauscher, Pierce & Co., Inc., Mercantile Bank Building, Dallas 1, Tex.

Steel, The Master Metal—Circular on the industry and stocks of several low-priced speculative steel companies—Mercer Hicks & Co., 150 Broadway, New York 7, N. Y.

Yearbook of Railroad Information, 1947 Edition—Compiled by the Eastern Railroad Presidents' Conference Committee on Public Relations—Copies available from McGinnis, Bampton & Sellger, 61 Broadway, New York 6, N. Y.

Your Bond Portfolio in Relation to Increasing Loans and Mortgages—Study—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Alleghany Corporation—Memorandum—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

American Telephone & Telegraph Co.—Table of related values—The First Boston Corp., 100 Broadway, New York 5, N. Y.

Cities Service Co. — Research memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Commonwealth of Kentucky Military Dept. Armory Corporation Bonds — Memorandum — The Bankers Bond Co., Kentucky Home Life Building, Louisville 2, Kentucky.

Graham-Paige Motors Corp.—Analysis—Seligman, Lubetkin & Co., 41 Broad Street, New York 4 New York.

Also available are analyses of **Osgood Company "B," Tennessee Products & Chemical and Fashion Park.**

Gulf States Utilities—Study of growth possibilities — Ralph E. Samuel & Co., 115 Broadway, New York 6, N. Y.

Kennecott Copper Corp.—Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Lake Superior District Power Co.—Analysis in the current issue of **"Business and Financial Digest"** —Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Liquidometer Corp.—Analysis—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

Long Bell Lumber Company—Detailed analysis available for interested dealers—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Portsmouth Steel Corp.—Analysis—Bennett, Spanier & Co., Inc., 105 S. La Salle Street, Chicago 3, Illinois.

Portsmouth Steel Corp.—Data—Buckley Brothers, 1240 Walnut Street, Philadelphia 2, Pa.

Also available is late information on **Beryllium Corp.** and **Gruen Watch.**

Portsmouth Steel — Special report—Ward & Co., 120 Broadway, New York 5, N. Y.

Providence Washington Insurance Co.—Detailed study—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Also available is a detailed analysis of **Camden Fire Insurance Association.**

Public National Bank & Trust Co.—Third quarter analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Public Service Co. of New Mexico—Memorandum—J. G. White & Co., Inc., 37 Wall Street, New York 5, N. Y.

Smith, Kline & French Laboratories, Inc.—Study and outlook—Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia 9, Pa.

Utah Southern Oil Co.—New analysis—Forbes & Co., First National Bank Building, Denver 2, Colo.

Also available is a map of the **Rangely Oil Field.**

Utica & Mohawk Cotton Mills, Inc. — Circular — Mohawk Valley Investing Co., Inc., 238 Genesee Street, Utica 2, N. Y.

COMING EVENTS

In Investment Field

Oct. 31, 1947 (Chicago, Ill.)
Illinois Security Dealers Association Annual Dinner at the Terrace Gardens of the Morrison Hotel.

Nov. 21, 1947 (Detroit, Mich.)
Securities Traders Association of Detroit and Michigan Annual Fall Party at the Prince Edward Hotel, Windsor, Ontario, Canada.

Nov. 30-Dec. 5, 1947 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

November, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

With Central Republic

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Andrew G. Engberg is with Central Republic Company, Rand Tower. In the past he was with Chrest & Co.

W. R. Luttrell Adds

Special to THE FINANCIAL CHRONICLE

COLUMBUS, GA. — William J. Fielder has been added to the staff of W. R. Luttrell, Swift Building.

Sees Brighter Housing Outlook

National Association of Real Estate Boards' survey indicates non-farm housing units will reach 900,000 in 1947.

Normal housing supply in many cities should be achieved within a year, if investors are given the assurance of the end of rent control and if no more federal money wrenches are thrown into the machinery of privately-financed residential construction, according to a statement of the National Association of Real Estate Boards, issued on Oct. 25.

This estimate was based upon reports from real estate boards of 299 communities in NAREB's 47th semi-annual survey of the real estate market. These communities have a combined population of 40,671,000, representing 49% of the estimated urban total of the United States.

For some cities, the survey indicated, an adequate housing supply will require three to five years, unless costs to the buyer are reduced in some way.

The present unprecedented home building boom, resulting largely from the removal of federal restrictions by the Housing and Rent Act, is changing the entire outlook for housing, NAREB said. The contra-seasonal spurt, although starting late in the year after the act became effective, turned out houses during August and September at the rate of one million a year, and should raise the 1947 production total to 800,000 or 900,000 non-farm units.

The shortage of places for families to live is still almost universal, the survey showed, but the tight situation is beginning to crack.

Undersupply of detached dwellings still persists in not quite 97% of the reporting cities, compared with 99% in February of this year. A shortage of apartments exists in 98% of the cities, the same as reported in February. Every city of more than 500,000 population is short of both single and multiple dwellings.

However, the survey revealed also a two-fold index of how new home production is making a dent in the housing shortage. Premiums for immediate possession have disappeared in 63% of the cities, and never were a factor in an additional 5%. In the remaining cities premiums are becoming smaller and less in number. In 49% of the reporting cities, moreover, new houses are no longer snapped up by purchasers before the builder completes them. The effect of high prices, of course, must be considered as a factor in this latter index, but just as important is the decreasing demand.

The improved outlook, moreover, is reflected by many comments from real estate boards reporting in the survey, such as:

"Since the July 1 relaxing, our builders have demonstrated new life and new interest by undertaking projects far larger in size and ambition than they were ever interested in during the period of government controls. This undoubtedly has some relation also to a more profitable rental investment future."

"Residential construction increasing rapidly."

"Our city is coming forth with a building boom in both dwellings and rental properties in spite of continuing high prices of labor and materials."

Only 2,078,200 non-farm residential units are needed to achieve a normal housing supply, NAREB said. Of these, 1,203,200 should be single-family dwellings, and 875,000 should be apartment units, the survey indicated.

The 2,078,200 new dwelling units represent only the minimum of the country's housing need, NAREB added, but they would take the pinch off the present shortage. After achievement of this total, high production must be maintained long enough to make over-due replacements of worn-out or obsolete structures, of those dangerous to health, and of those needed in the process of rebuilding slums and retarding urban blight.

With the present population of the country and the current family income levels, construction beyond the 2,078,200 total would not be confined to the sole problem of putting roofs over people's heads, but would be for the purpose of improving housing standards, NAREB explained.

Weights still hampering house production, the survey showed, are:

(1) Today's high cost for labor and materials all along the line of production.

(2) Continuing scarcities of some materials and of skilled labor.

(3) Resulting uncertainties in scheduling the building operation and resulting "inefficiency" of labor, which, in turn, increase home costs.

Shortage of skilled building labor was reported by 62% of the communities, with the situation more acute in the larger cities. There are more jobs than experienced workmen in 88% of the country's biggest cities, but in only 58% of the smallest towns.

Specific building materials that are still short in a majority of the reporting communities are:

(1) Soil pipe, in 66%.

(2) Hardwood flooring, in 62%.

(3) Plumbing equipment, in 61%.

(4) Rock lath and mineral wall board, in 60%.

(5) Millwork, in 52%.

Every city of more than 500,000 population reported a shortage of soil pipe, rock lath, and mineral wall board, and 75% listed a dearth of plumbing equipment.

Edwards Trading Mgr. For H. Hentz & Co.

H. Hentz & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange and other leading stock exchanges, announce that Ransom R. Edwards has become associated with them as manager of their trading department.

Ransom R. Edwards

Mr. Edwards, who has been in the investment business for many years, was formerly in the unlisted trading department of Riter & Co. and prior thereto was manager of the unlisted department for Newborg & Co.

MacDonald, Chair. of So'western IBA Group

KANSAS CITY, MO.—Frederick H. MacDonald, Burke & MacDonald, was elected Chairman of the Southwestern Group of the Investment Bankers Association of America, succeeding H. C. Evans of the Commerce Trust Co. Donald Seltsam, Seltsam & Co., Inc., Topeka, Kans., was elected Vice-Chairman, and J. Peter Soden, Soden-Zahner Co., Kansas City, was chosen Secretary-Treasurer.

European Aid and Marshall Plan

By JOSEPH M. DODGE*
President, American Bankers Association
President, The Detroit Bank

Asserting our prosperity is endangered if Europe remains prostrate, ABA executive urges support of Marshall Plan. Says world peace and what is left of democracy and free enterprise in Europe is at stake and warns recovery of European nations will require time. Stresses importance of U. S. as instrument in world progress.

Our Government is attempting to develop a reasonable and effective answer to the need for further aid to Europe. This can be divided into two parts. One is the short-term problem of providing and financing immediate assistance. There is a crisis arising from Europe's inability to purchase its critical requirements, mostly in food and fuel. The other is the longer-term problem of supplying and financing the materials and equipment necessary to a sound and progressive economic reconstruction.

Joseph M. Dodge

There is a real necessity for a successful solution, and some obstacles and difficulties to be overcome. There are no simple problems, or easy answers. Everything is extremely complicated — economically, financially and politically. There will be no successful answer without a really great effort and better preparation for the use of our aid by the European peoples and their governments, and without effort and sacrifice on our part.

In our own country, we have to realize that the demand on us is for goods in terms of money. Most of the money is being spent here and the goods are going abroad, without offsetting imports. This is inflationary, whether in loans or gifts. It can affect our prices, our budget, our taxes, and may add to the shortages of certain critical items. It can create a dangerous illusion of prosperity in this Country, against which we must continuously protect ourselves.

The fact that what we do abroad can complicate our own internal situation becomes a factor in considering the amount of our aid and how it is to be directed and controlled. Obviously, if we are to support a successful reconstruction abroad, and if the rest of the world must depend upon our strength, we must remain truly strong. Any weakening of this country would add nothing to world stability. For these reasons our part in European aid and reconstruction must first take into account our fundamental obligations to the people of the United States and, while doing that, find ways and means to provide the much needed assistance for Europe.

The Marshall Plan, as it is called, is intended to embrace both these issues. Actually, it is not a plan and is not a formula. It is merely a statement of fundamental principles which should control our approach to European aid. These were so obvious and had so long been necessary that they were immediately accepted, both here and abroad, and shortly became popularly titled a "Plan."

In substance, it proposes that Europe go to work realistically defining its own problems, what it can and will do about them at home, and how it will get the most out of every resource available. If there is a cooperation in meeting common needs, and a pooling of resources for mutual aid, the United States can help meet otherwise unanswered requirements. The emphasis is changed from—How much do you need or how much do you want?—to—What can you do to help yourself and contribute to each other?

In this way, we get away from indiscriminate, separate petitions for help and relief, and eliminate uncoordinated aid on an emergency-to-emergency basis. Unquestionably this is a sound approach.

We can not be expected to continue aid indefinitely on the scale of the past two years. Our resources are not unlimited, regardless of the fact that many Europeans tend to assume they are. Therefore, it is logical that there must be a soundly constructive, long-range plan back of any further substantial aid, which leads to a progressive reduction and final elimination of the drain on the wealth and resources of this country. The American people must be able to look ahead and see an end to the demands on them for tremendous sums in money or goods, and Europe's offer for the future must certainly be something more tangible than an indefinite continuation of grants from the United States.

This will be possible only by a new and completely cooperative approach by the European nations to their common problems, a new realism in recognizing their failures, and a determination and ability to increase productivity, with some real assurance of successful results.

Some of the most serious obstacles to an effective reconstruction are in the internal economic, financial, and political conditions of the foreign nations which seek our aid. Since the end of the war there has been a universal reluctance and delay in taking notice of plain warnings of trouble ahead, and in applying completely obvious and necessary remedies. Continuing inflation; nationalization programs, and their growing bureaucracies; large budget unbalances; constantly depreciating currencies; black markets; low production efficiency; loss of incentive; exchange restrictions; and unrealistic currency exchange rates have all complicated and slowed down progress. This is in the economic and financial field, and takes no account of existing political confusions and Communist obstructions which do not simplify the situation.

Temporary Solutions Futile

So far the interest and emphasis in Europe mostly has been on temporary solutions provided from the dollars, goods, or other resources of the people of the United States. In too many cases, this has been serving as a refuge from reality and a substitute for doing the obvious, but unpleasant, things necessary to correct unsound internal situations. The failure to correct them has contributed to dependence, rather than independence.

What Europe needs is better government housekeeping; increased production; the maximum, efficient use of its own resources; and the modification or elimination of those factors which inhibit enterprise and investment, discourage working effort, and multiply frustration. Dollars alone have not and will not accomplish this. It will require governmental action in Europe, supported by the cooperation of the people. If some easily definable economic and financial illnesses

(Continued on page 33)

*A radio address of Mr. Dodge over Columbia Broadcasting System Network, Oct. 13, 1947.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

Two weeks ago this column pointed out that the peak in deposits and earning assets of 15 leading New York City banks appeared on their balance sheets of Dec. 31, 1945, and that since then steady and substantial declines had been experienced. However, attention was also drawn to the fact that the subsequent low point was reached in the third quarter of 1947, for second and third quarter reports showed moderate increases in their aggregate figures. For example, it was shown that deposits as of Sept. 30, 1947, aggregated $22,962,000,000 vs. $22,602,000,000 on March 31, 1947, and total earning assets aggregated $19,276,000,000 and $19,019,000,000, respectively.

The accompanying tables show how each of the 15 banks has fared between the two dates, in comparison with the group as a whole.

TABLE I

(000,000 omitted)

	DEPOSITS March 31, 1947	DEPOSITS Sept. 30, 1947	% Change	TOTAL EARNING ASSETS March 31, 1947	TOTAL EARNING ASSETS Sept. 30, 1947	% Change
Bank of Manhattan	$980	$1,035	+ 5.6	$771	$854	+10.8
Bank of New York	318	316	— 0.6	244	237	— 2.9
Bankers Trust	1,310	1,393	+ 6.3	1,118	1,230	+10.0
Central Hanover	1,472	1,423	— 3.3	1,239	1,161	— 6.3
Chase National	4,488	4,542	+ 1.2	3,731	3,696	— 0.9
Chemical Bank & Trust	1,115	1,195	+ 7.2	948	1,000	+ 5.5
Corn Exchange	768	783	+ 2.0	621	612	— 1.4
First National	619	627	+ 1.3	631	645	+ 2.2
Guaranty Trust	2,450	2,475	+ 1.0	2,272	2,325	+ 2.3
Irving Trust	975	1,030	+ 5.6	839	888	+ 5.8
Manufacturers Trust	2,104	2,153	+ 2.3	1,733	1,706	— 1.6
*National City	4,754	4,741	+10.0	3,790	3,848	+ 1.5
New York Trust	626	615	— 1.8	527	520	— 1.3
Public	504	514	+ 2.0	434	438	+ 0.9
U. S. Trust	119	120	+ 0.8	123	116	— 5.7
Totals	$22,602	$22,962	+ 1.6	$19,019	$19,276	+ 1.4

*Including City Bank Farmers Trust.

It will be observed that three banks reported moderate declines in deposits, viz: Bank of New York, Central Hanover and New York Trust. Best gains were reported by Bank of Manhattan, Bankers Trust, Chemical, Irving Trust and National City.

With regard to earning assets, the same three banks that reported lower deposits again show declines in earning assets, and also, Chase, Corn, Manufacturers and New York Trust. Bank of Manhattan, Bankers Trust, Chemical and Irving show the best gains in earning assets, as in deposits, while National City shows about average gain.

The next table shows changes that have occurred in reported loans and discounts and in holdings of Government Securities.

TABLE II

(000,000 omitted)

	LOANS & DISCOUNTS March 31, 1947	LOANS & DISCOUNTS Sept. 30, 1947	% Change	U. S. GOVT. SECURITIES March 31, 1947	U. S. GOVT. SECURITIES Sept. 30, 1947	% Change
Bank of Manhattan	$404	$430	+ 6.4	$320	$372	+15.9
Bank of New York	74	76	+ 2.7	149	140	— 6.0
Bankers Trust	505	593	+17.4	601	558	— 7.2
Central Hanover	400	416	+ 4.0	768	653	—15.0
Chase National	1,252	1,264	+ 1.0	2,140	2,139	— 0.1
Chemical Bank & Trust	361	398	+10.2	471	463	— 1.7
Corn Exchange	74	64	—13.5	524	524	n. c.
First National	81	77	— 5.0	463	468	+ 1.1
Guaranty Trust	744	789	+ 6.0	1,416	1,407	— 0.6
Irving Trust	303	321	+ 5.9	505	538	+ 6.5
Manufacturers Trust	469	478	+ 1.9	1,183	1,140	— 3.6
National City	1,094	1,146	+ 4.8	2,311	2,323	+ 0.5
New York Trust	233	240	+ 3.0	270	256	— 5.2
Public National	138	142	+ 2.9	282	279	— 1.1
U. S. Trust	25	34	+36.0	80	62	—22.5
Totals	$6,157	$6,468	+ 5.1	$11,484	$11,322	— 1.4

This table shows that aggregate loans and discounts have increased 5.1% and Government securities have declined 1.4%. Again Bankers Trust, Bank of Manhattan, Chemical and Irving show above average gains, that is in loans and discounts; so also does Guaranty. Declines are reported by Corn and First National. The 36% gain by U. S. Trust is from a very small base. In government holdings four banks show gains, contrary to the aggregate trend, Bank of Manhattan leading with an increase of 15.9%, followed by Irving with 6.5%, First with 1.1% and National City with 0.5%.

It must be pointed out, however, that Table II hides more than it reveals. For instance, the moderate 5.1% increase in loans and discounts fails to disclose that there has been a very substantial expansion in the most important category of loans, viz: commercial. The balance sheets of the banks lump all classes under "loans and discounts", without distinction. Reporting member banks of the New York District, which include the 15 banks under review, show a 12.5% gain in commercial loans over the period, from $4,157,000,000 to $4,675,000,000, and since then there has been a further increase of $214,000,000.

Another important point not disclosed in the table is that, contrary to the decline in total governments of —1.4% there has been an expansion in the higher yield long-term governments of approximately half a billion dollars, equivalent to +4.2%. The shrinkage has been confined to the shorter term, lower yield issues.

If it is true that the immediate post-war downtrend of earning assets and deposits has been checked and that a turning point has come, then the above tables may offer clues as to which banks are likely to stage better-than-average recoveries from the recent low levels.

Marketwise, bank stocks have been doing very poorly this year, both absolutely and relatively, having declined 11.5% vs. a gain of 4.5% by the Dow-Jones Industrial Average. Relative to Standard & Poor's weekly index of bank stocks, the 15 bank stocks under review have performed as follows, since the end of the first quarter of 1947:

Better than Index — Bank of Manhattan Co.; Bankers Trust Co.; Chemical Bank & Trust Co.; Corn Exchange Bank & Trust Co.; Manufacturers Trust Co.; National City Bank, and New York Trust.

Approx. Same as Index—Bank of New York; Central Hanover Bank & Trust Co., and Public National Bank & Trust Co.

Poorer than Index—Chase National Bank; First National Bank; Guaranty Trust Co.; Irving Trust Co., and U. S. Trust Co.

Resigns as President of General Dyestuff Corp.

Matthew J. Hickey, Jr., in letter to Attorney General Clark, says, in view of failure to carry out mandate of Congress to merge General Dyestuff Corporation with General Aniline and Film Corporation, so as to Americanize these companies by distribution of stock to U. S. stockholders, he feels he should vacate his temporary position.

The "Chronicle" has received copies of the following correspondence between Attorney General Tom C. Clark and Mr. Matthew J. Hickey, Jr., President of Hickey & Co., security dealers in Chicago, relating to Mr. Hickey's resignation as President of the General Dyestuff Corporation and Director of the General Aniline and Film Corporation, both of which companies were taken over by the Alien Property Custodian at the outbreak of the war:

M. J. Hickey, Jr.

The Honorable Tom C. Clark,
Attorney General of the United States,
Washington, D. C.

Dear Mr. Attorney General:

It is now more than five years since I, in an endeavor to make a contribution to the war effort, accepted the responsibility and duties of Senior Vice-President and director of General Dyestuff Corporation. I take justifiable pride in the part we played during the war.

When earlier this year you so generously proffered me the Presidency of General Dyestuff Corporation and I accepted, you indicated it was reasonable to expect that General Dyestuff Corporation and General Aniline and Film Corporation could be merged and readied for a stock offering in fulfillment of the mandate of the Congress to Americanize these companies by wide distribution of the stock to American stockholders within a few months. Now it appears that this much desired consummation is not probable in the foreseeable future. At the time I became President of General Dyestuff Corporation with your support and approval, I made clear that I did not possess any ambition for a permanent career in the chemical or dyestuff field. As a matter of fact, at that time, I issued a statement, read by every employee of General Dyestuff Corporation, and incorporated in the minutes of the Directors' meeting, at which I was elected, that acceptance on my part was strictly on a temporary basis.

During our meeting today, you were fair enough to declare that a sale of these properties could not be expected for an indefinite time for reasons beyond your control.

Therefore, I ask, and I am certain in view of the circumstances outlined that you will agree, that I be relieved as soon as convenient of all duties and responsibilities as President and Director of General Dyestuff Corporation and as Director of General Aniline and Film Corporation. The compelling reason for this request is the press of my own business in Chicago.

May I be permitted to state that notwithstanding the sacrifice I have made willingly during the past five years because of separation from my wife and family and from my own business, I have found the work interesting and enjoyed it immensely. May I also take this opportunity to thank you for your many acts of kindness, thoughtfulness and cooperation while I served under you in the Office of Alien Property.

I send you every good wish and every warm regard.

Sincerely,
MATTHEW J. HICKEY, JR.
Sept. 23, 1947

Office of the Attorney General
Washington, D. C.

Dear Mr. Hickey:

I have before me your letter of Sept. 23, 1947 requesting that you be relieved, as soon as convenient, of all duties and responsibilities as President and Director of General Dyestuff Corporation and as Director of General Aniline and Film Corporation.

It is my understanding that you assumed your duties at the request of the then Alien Property Custodian to aid our Country in the war effort and that it has always been your desire to return to your own business in Chicago. The personal sacrifice your service represents is appreciated.

It is for the foregoing reasons that I accede to your request. You may consider your duties and responsibilities ended as of Oct. 15, 1947.

I hope that in the pursuit of your career you will have continued success.

With kind personal regards.

Sincerely,
TOM C. CLARK,
Attorney General

Mr. Matthew J. Hickey
General Dyestuff Corporation
435 Hudson Street
New York, N. Y.
Oct. 7, 1947

Brailsford Gov. of Chicago Stock Exh.

CHICAGO, ILL.—The Board of Governors of The Chicago Stock Exchange at their monthly meeting held Oct. 27 elected Walter R. Brailsford, of the firm of Brailsford & Company, a Governor of the Exchange, to fill the vacancy created by the recent death of Patrick F. Buckley, partner of Harris, Upham & Company. At the same meeting, George F. Noyes of The Illinois Company was elected Chairman of the Committee on New Business and Public Relations, which chairmanship was formerly held by Mr. Buckley. Mr. Brailsford was also appointed to serve as a member of this committee.

Ruth Co. Adds Two to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Albert O. Nelson and Bertram S. Urbach have joined the staff of R. F. Ruth & Co., 727 West Seventh Street. Mr. Nelson was previously with G. Brashears & Co. Mr. Urbach was with Hill Richards & Co. and Buckley Brothers.

Joins Walston, Hoffman

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, CALIF. — Frank Bumb has become affiliated with Walston, Hoffman & Goodwin, 12 South First Street. He was previously with Hannaford & Talbot.

Brown Rejoins Cumberland

BIRMINGHAM, ALA. — C. Blythe Brown is again representing Cumberland Securities Corporation in the State of Alabama. His offices are at 110½ North 21st Street, Birmingham.

Coughlin Visiting N. Y.

Edward B. Coughlin, head of Coughlin & Co., Denver, will be in New York on a 10 day business trip.

Can Dollars Save the World?

Henry Hazlitt declares American credits must be ineffective while recipients keep imposing "strangling networks" of control, and foreign trade is blocked by pegged overvaluation of currencies. As U. S. produces only 12% of world's food supply, our effort to feed rest of world must bring soaring prices here, he states.

Even the most generous American loans will not bring world revival as long as European governments retain their present strangling networks of economic controls.

As in Great Britain in the past 15 months, these controls will do more to distort and paralyze production than our aid can do to restore it.

Henry Hazlitt

The greatest single obstacle today to the revival of a normal two-way foreign trade is the pegging of European and other currencies at overvalued levels.

Those are among the chief conclusions of a study prepared by Henry Hazlitt, author of "Economics in One Lesson" and business columnist for "Newsweek." The study was made public on Oct. 29 by The Foundation for Economic Education, Inc., of Irvington-on-Hudson, New York, under the title "Will Dollars Save the World?"

Mr. Hazlitt outlines 17 principles and conclusions with regard to foreign economic aid. Among them are:

Soaring Food Prices Inevitable

(1) As the United States produces only 12% of the world's food supply, the effort to compensate even in part for the food shortage in Europe must bring soaring food prices here. The real solution for the world crisis is not to distribute scarcity but to restore production.

(2) The so-called "dollar shortage" is a misleading name for the efforts of Europe to buy more than it sells and consume more than it produces.

(3) Unless we undertook to dictate all European government expenditures, our help might merely release European internal resources for non-essential or harmful purposes.

(4) It is not true that the United States needs foreign loans to keep full production and employment at home, or that we can get rich by giving our goods away.

(5) There is no scientific or objective way of measuring Europe's "needs" for aid. The figures of the Paris conference of 16 nations are little better than guesses.

(6) Making heavy loans or gifts to unstable European governments is not the most effective way to combat world communism.

(7) The business of international lending should be returned as soon as possible to private hands.

(8) If an emergency public institution is considered necessary to make stopgap or stabilization loans, the best instrumentality would be the International Bank for Reconstruction and Development, under a revised charter.

A Positive Program for America

Recommending a positive program for America, Mr. Hazlitt proposed that we "make our own capitalism free and strong"; that we lower our tariffs immediately "whether other nations do so or not"; that we drastically revise our economic policies in Germany and Japan to permit the Germans and Japanese themselves to restore their economies; that the International Monetary Fund be reformed to remove the compulsion on all member nations to control exchange rates and to give the fund managers power to impose conditions on borrowing governments; that the United States return to "a real instead of a merely technical gold basis" and invite all nations to cooperate in restoring a world gold standard; that we "accept frankly the ideological and diplomatic challenge of Communist Russia"; and that wherever overriding emergency seems to demand it our government should give food, not money, to Europe, and "stamp an American flag, literally or figuratively, on every package."

Mr. Hazlitt's study will be published in book form in November by Appleton-Century.

Two With F. I. du Pont Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert W. Ganser and Bernice L. Hammann have become associated with Francis I. du Pont & Co., 200 South La Salle Street. Mr. Ganser was previously with Bache & Co. and H. Hentz & Co. Miss Hammann was with Wayne Hummer & Co.

With H. H. Butterfield

(Special to THE FINANCIAL CHRONICLE)

JACKSON, MICH. — Alex B. Cameron has become connected with H. H. Butterfield & Co., Jackson City Bank & Trust Co. Building.

With Otis & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Peter Hallaran is now associated with Otis & Co., Terminal Tower Building. He was previously with Merrill, Turben & Co.

With Davis, Hunter, Scott

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Anton Hamel is now with Davis, Hunter, Scott & Co., Penobscot Building, members of the Detroit Stock Exchange.

Railroad Securities

The securities of Virginian have been under considerable pressure recently. The road's 3% bonds, which holders at one time feared might be refunded, broke par early this week. The 6% preferred ($25 par) has recovered only nominally from the year's low of 32 compared with the 1947 high of 40 and last year's peak of 45¼. The common, around 37, is also within easy striking distance of the 1947 low. The income return of 6.76% on the current $2.50 annual dividend rate is notably out of line with the investment caliber of the stock. In the opinion of many rail men it is impossible to justify this apparent loss of investment confidence.

Probably one of the factors contributing to the recent steady pressure on all Virginian securities was the testimony of the management during the ICC hearings on the application of Messrs. Bowman and Young, of the Chesapeake & Ohio, for permission to sit on the Board of Directors of New York Central. In 1930, the Virginian built a bridge across the Kanawha River at Deepwater, West Virginia, to form a connection with New York Central. This connection has brought to Virginian a profitable volume of merchandise freight from New York Central and has also afforded Virginian important outlets for its originated coal in New York Central territory. It is the contention of the Virginian that this interchange would be lost if there were to be an affiliation of Chesapeake & Ohio with New York Central.

Mr. Beale, President of Virginian, brought out in his testimony before the Commission that the interchange with New York Central accounts for 49% of the total revenues the road gets from the movement of merchandise freight. It was claimed that virtually all of this would be lost if Chesapeake & Ohio were to get a voice in the operation of New York Central. On the basis of 1946 business, it was estimated by Mr. Beale that Virginian would stand to lose more than $7,000,000, or close to 30% of its total freight revenues. Of this it was estimated that some $3,000,000, representing the New York Central interchange of coal and merchandise freight, would be lost immediately. The balance, of roundly $4,000,000, representing coal from Virginian-Chesapeake & Ohio joint mines, would be a question of gradual attrition.

Obviously, any such loss would be a serious blow to Virginian—last year's income available for charges before Federal income taxes was just short of $7,000,000. Moreover, on the basis of this year's business the diversion was placed at at least $10,209,630. Most railroad analysts, however, are not inclined to take this as any near or intermediate term threat to Virginian's earning power. For one thing, even the management admits that the larger portion of the potential loss would be a matter of gradual deterioration even if it did set in. Secondly, regardless of the outcome of the pending petition, the final decision will be long delayed. Finally, it is generally considered that there is little likelihood that the Commission will allow an affiliation to Chesapeake & Ohio and New York Central or an interlocking directorate.

In the meantime, investors are apparently overlooking the most favorable aspect of the Virginian situation, its very low cost ratio. This is particularly important in this period of inflationary price spirals. Virginian is the smallest of the so-called Pocahontas carriers, but it is by far the most efficient. Naturally, the operating performance during the war years is of little significance. This is particularly true of Virginian, which was one of the few roads actually harmed, temporarily, by war conditions. Normally, the bulk of the road's coal goes to tidewater for water transshipment to Atlantic Coast ports. Submarine activity and shortage of ship bottoms resulted in rerouting via all-rail with a consequent shorter haul over Virginian lines.

It is significant, however, that consistently prior to the war the company had an operating ratio of less than 50%, which was one of the lowest in the country. Similarly, for the first eight months of the current year the operating ratio was reduced to 59% and for August alone it was down to 54.7%. The competing Norfolk & Western and Chesapeake & Ohio for the first eight months of 1947 had operating ratios of 65.7% and 72.3%, respectively. For the full year 1947 it now seems likely that Virginian's earnings may reach $4 a share which many analysts feel would justify a more liberal dividend policy.

Thatcher M. Brown 50 Years with Firm

Thatcher M. Brown, senior partner of Brown Brothers Harriman & Co., 59 Wall Street, New York City, will observe on Oct. 25 the completion of 50 years of service with the private banking firm. Joining the firm in 1897 following his graduation from Yale University, Mr. Brown was admitted as a partner on Jan. 1, 1907. He is a direct descendent of the founder and the fourth generation of Browns in the firm since the business was established in 1818.

Mr. Brown is a trustee of many insurance companies including Atlantic Mutual Insurance Co., and is Chairman of the New York boards of directors of Commercial Union Assurance Co. Ltd. of London and the Liverpool & London & Globe Insurance Co. Ltd. He is also a member of the American boards of Ocean Accident & Guaranteed Corp. Ltd. and the Royal Insurance Co. Ltd.

Mr. Brown is an honorary member of the board of trustees of Presbyterian Hospital in New York City and a member of the board of directors of Union Theological Seminary.

Coffin Is Cleve. Mgr. For C. F. Childs & Co.

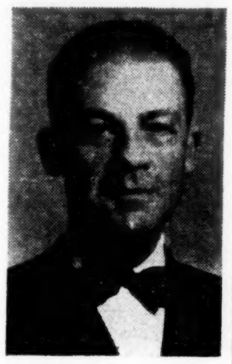
CLEVELAND, OHIO—Robert H. Coffin, Assistant Vice-President of C. F. Childs & Co., has been appointed the Manager of the Cleveland office, Union Commerce Building.

The Railroad Security Outlook

By WALTER F. HAHN*
Railroad Specialist, Smith, Barney & Co.

Security analyst, holding railroad securities are in an "adjustment market," predicts a vigorous bull market will follow in these issues. Points to heavy and increasing railroad traffic as more than offsetting higher wages and materials costs. Sees rails in strong current financial position and in good physical condition. Concludes rail issues are low in price, but advises opportunistic trading attitude.

Railroad securities in general have been a source of concern to investors ever since May, 1946, when the first postwar wage increase was granted. Until the trend of wages is no longer upward, railroad securities will from time to time continue a source of concern to those who hold them. Thus, since it cannot yet be said that the trend of wages is not upward, it is difficult, if not impossible, to visualize an extended, robust bull market in railroad stocks and bonds in the near-term future.


Walter F. Hahn

Most people think of markets as being either bear or bull. However, a pretty good case can be made for a third kind of market—a market which may be called an adjustment market. I think that railroad securities as a class have been in an adjustment market for the past year, and will continue in such a market until the following developments occur:

(1) The upward trend of wages ceases.

(2) The long awaited business recession-depression occurs and runs its course or is eliminated as a prospect by its failure to appear.

The term adjustment market sounds like a hedge, and perhaps it is one. With the domestic-foreign situations as confused as they are, one who didn't hedge at least to some extent would be definitely looking for trouble. I want as little of that as possible. Be that as it may, thinking of markets as of three types does seem to have practical advantages, as only a brief inspection of past markets will indicate. Certainly, in the case of most railroad securities it was better as a practical matter to conceive of the years 1932, 1933 and 1934 as an adjustment market rather than a bull or a bear market. Similarly, in the period 1938 to 1941 the concept of an adjustment market was more helpful than the fixed idea of either a bull or bear market. What we had during those seven years was a series of short bull and bear markets covering wide ranges in 1932-1934, and relatively narrow ranges in 1938-41.

In the current adjustment market I think one ought to expect price variations wider than in the period 1938-1941 but narrower than in the 1932-1934 period.

Bull Market to Come

People like a scapegoat. They like a whipping boy. At the risk of being one, I'll venture a long-term prediction, namely, that just as in the years after 1932-1934 and 1938-1941, a vigorous bull market in railroad securities will follow the current adjustment period.

If we accept the theory of an adjustment market, it follows, I suppose, that for a further extended period the best results will be obtained from a trading rather than a fixed bull or bear attitude toward a large segment of the railroad list, as was the best policy in the adjustment markets that followed the bear markets of 1929-1932 and 1937-1938.

I think the concept of an adjustment market—that is a trading market—for most railroad securities fits the current factual and psychological background better than some other theory, primarily because there are so many conflicting favorable and unfavorable forces affecting people's judgment of present and future values and because this interplay of bull and bear forces seems likely to continue. It may well be that neither set of forces will be completely dominant for an extended period until their complexion changes.

In the current environment which is pessimistic rather than optimistic, it hardly seems necessary to go into any lengthy recital of the adverse factors affecting sentiment toward railroad securities. These have been pretty well aired—not only by those who study railroad securities and comment thereon but also by railroad management, particularly in connection with recent dire predictions as to what will happen to the industry if substantial and immediate freight rate increases are not granted. The basic trouble is of course the upward trend of wages and other costs, particularly serious due to the high ratio of railroad wages to railroad revenues and the resulting low ratio of railroad net to railroad wages and railroad revenues. With revenues roughly $8 billions a year, railroad wages $4 billions a year, railroad net $1½ billion a year, which was about the case in the 12 months ended June last, it follows, at least in theory, that a 10% increase in wages goes a long way toward the elimination of net income and that a 20% increase in wages eliminates the net income entirely. But it also follows that a 10% increase in rates on all types of traffic completely restores the net income figure to where it was before the 20% increase in wages. Thus, an environment such as the present naturally gives the investing public the jitters. One minute you see it and the next minute you don't! I'm speaking of railroad net income.

This situation is nothing new in the railroad industry. It has always been true that small changes in wages and rates mean large changes in net income. In 1929, when railroad net income was larger than in any other year except 1942 and 1943, a 20% increase in the wage bill would have reduced such net by about 60%—other things being equal, which they hardly ever are. In 1936, when the people were pretty optimistic about railroads and when their securities as a result sold pretty high, 10% of the wage bill was greater than the net income.

Much of the time no great attention is given these relationships. But when, as at present, the wage trend has been strongly upward, then they become a matter of common knowledge and comment and concern.

Trend of Wages and Materials

The upward trend of wages and also the cost of materials and supplies is undeniably serious, but I very much doubt that it is as important a factor at present as the levels of industrial and agricultural production, which determine railroad traffic volume. I say this for the reason that the history of railroading suggests that freight and passenger rates will tend to keep pace with operating costs so long as the general economy is prosperous and the volume of production and railroad traffic large. As a result, from a near-term point of view, I should be much more concerned regarding future railroad earnings by concrete evidence of traffic decline than by continuing evidence of rising costs which are primarily wages. And if, over the next year or two, railroad security prices are to be measurably lower than they were in May of this year, it will be the result, I feel, of business and traffic decline rather than of increased costs. In any attempt to judge the future course of railroad security prices, emphasis should be placed, I think, on what is going to happen to the business and traffic levels rather than on what is going to happen to wages and freight and passenger rates.

In the foregoing connection, it is worth noting that during and after World War I, wage rates increasing 111%, freight rates 78%, passenger rates 48%. Since 1939 wage rates have gone up 67%. If operating employees obtain a 15% increase, similar to that of the non-operating employees, wage rates will be up 75%. Since 1939 there has been a 17½% increase in freight rates but revenue per ton-mile has increased only about 9%. Passenger fares are up about 12%.

Cost of materials and supplies is about 90% higher than in 1939.

On the basis of the foregoing, there cannot be much doubt regarding speedy, favorable action by the ICC on the railroad's recent request for a 10% interim increase in freight rates.

Higher Freight Rates Coming

Also, the logic of the situation suggests strongly that by the year end freight rates will again be raised on a permanent basis.

Thus, the reasonable expectation for the near-term is for a further period of satisfactory earnings for many, but not all, companies.

I say "many but not all" for the excellent reason that not in a long time, if ever, was there as much difference in the earnings of individual railroads as there is today. Pennsylvania doesn't earn its charges and Burlington earns its charges eight times. Thus, the term "satisfactory earnings" for the industry as a whole does not, under present conditions, mean all railroad companies.

If we are to have higher freight rates and pretty good earnings for many railroad companies, why not a bull market in rails?

The basic reason, I should say, is that nothing will have been settled. In many investor's minds there will probably continue the worry about how long the upward spiral can last and also probably the thought that the trend will continue upward until it is stopped by business adjustment.

Even with earnings of many railroads satisfactory for a further period, the general background is not likely to be conducive to a widespread, generally held belief that everything will be dandy. This is what is needed for a bull market, apart from one based on inflation fear. The latter, I suppose, could happen. Recently, there were a few vague signs pointing in that direction. That sort of a bull market would probably include railroad stocks and large discount railroad bonds even

(Continued on page 33)

*An address by Mr. Hahn before the New York Society of Security Analysts, New York City, Sept. 26, 1947.

The Crisis Facing Private Enterprise

By CHESTER BOWLES*

Former Administrator, Office of Price Administration

Maintaining next few years may represent last chance to achieve economic stability under private enterprise, former OPA Administrator urges businessmen to cut prices. Though advocating absolute minimum of Government planning, holds too little Government will end up in too much Government. Says it is role of Government to guarantee sufficient purchasing power for goods produced. Stresses public works and Government housing as stabilizer and calls tax system a mess. Attacks present "haphazard" price making and urges lower prices to produce larger sales.

At present, we are faced with a serious price inflation. The rise in wholesale prices since the removal of effective controls in June, 1946, is now roughly 40%—seven times the increase of the previous three years under price controls with inflationary pressures, from a technical point of view, were far more dangerous than those which are pushing prices upward today. If the price cycle follows the history of similar situations in the past, we are destined for a bust in greater or lesser degree.

Chester Bowles

There are certain specific measures which we could take that would greatly alleviate our present danger and cushion whatever recession may lie ahead. In the present political climate, however, I doubt that we will take those steps in time.

If a depression results, it will have serious repercussions. It would create grave hardship not only among our workers and farmers, but among our businessmen. It would increase already serious international tensions.

Dismal and unnecessary though it would be, the experience should not be fatal—provided (and let me stress this point) we take vigorous and intelligent action as soon as an economic depression becomes evident.

But let's not minimize the issue or the risk. The next few years may represent our last chance to achieve economic stability under private enterprise. If we accept that challenge, if we will work together to create the economic conditions which are essential to greater production and a fairer healthy distribution of our goods, then we will have won a major battle for the economic welfare and freedom of the individual. If we fail successfully to meet this challenge because of economic ignorance or lack of imagination or short range greed—our defeat may result in the collapse of the capitalist system which has in the past given us so much.

The American people believe in our present system. The Horatio Alger tradition is still firmly entrenched in the heart of the average American school boy. But the American people have had a glimpse of what full production can bring. In the future, they are unlikely to accept the theory that recurring inflations and depressions are essential to the health of our economy.

It would be the worst kind of folly to minimize their convictions on this point. If we fail to achieve economic opportunity and sustained full employment by moderate means, they will insist that other means be tried. This will lead to sweeping changes in our entire economic system and to the kind of political confusion out of which almost anything could emerge—including a 1948 edition of Huey Long.

I would like to discuss what I believe you as businessmen can do about this situation.

Role of Government

A democratic solution to our economic future divides itself, it seems to me, into two parts: First, the role of government acting as our democratic agent in behalf of all of us; and second, the role of the worker, farmer, or businessman acting on his own initiative, and in what he believes to be his own best interest.

Let us take the role of government first. In my opinion, we should accept only the absolute minimum of government planning necessary to help keep our economy running at full blast. Clearly, however, some broad economic planning is essential. If we insist on too little government, we are certain to end up with too much government.

Government, it seems to me, has four essential responsibilities in a full functioning private enterprise economy. The first responsibility of government is scarcely controversial. Everyone accepts the need for public education, an adequate military establishment, good roads and an efficient post-office system. The role of government in providing these services is traditional.

On the second role of government, there may be some controversy, although I do not think it should divide us too sharply. This is the role of government acting as umpire between the various groups that go to make up our economy.

Big Business has developed rapidly during the last 50 years. It was inevitable that Big Business would lead to Big Labor and to almost equally powerful farm organizations. This evolution towards bigness has led us toward Big Government, for only through Big Government, in the face of big private pressures, could the people as a whole hope to protect their interests.

Clearly, it is one of the primary roles of government to see that reasonable fairness exists between the major economic groups. It is government's responsibility, for instance, to curb monopolies of all kinds whenever their activities jeopardize the public interest.

The third role of government—and now we are moving into more controversial ground—is to establish a minimum standard of living below which no American family should be allowed to fall. We have already taken many steps in this direction. We have minimum wages, although today they are wholly inadequate. Most of us, including Senator Taft, have accepted the necessity for government help in slum clearance. The food stamp plan, which was widely accepted during the 1930's as a means of assuring every American family a basic minimum diet, is again being considered.

The Social Security program now appears on the platforms of both political parties. The idea of government health insurance programs, which is being fiercely fought by the American Medical Association on the distorted theory that it represents socialized medicine, will be debated in Congress at the coming session. I doubt that it will pass, but surely steps will be taken along these lines within the next few years.

The fourth and most controversial role of government, as I see it, is as a guarantor that sufficient purchasing power will exist to purchase each year all the goods we are capable of producing. This fourth role of government is closely inter-related with the third role, which I have briefly discussed.

In the past, the businessman has been faced with two entirely separate risks. The first risk concerns his own ability to compete with others in his own industry in providing high quality products at lowest possible prices. Every businessman who is worth his salt should welcome this risk with enthusiasm for it represents the essence of our private enterprise system.

The Risk of Depression

The second risk with which our businessmen have been faced in the past and which they will face again between now and 1950 is the risk of a business depression. The risk of the competitive market eliminates only the inefficient

(Continued on page 36)

*An address by Mr. Bowles at the American Marketing Association Meeting, New York, N. Y., Oct. 24, 1947.

Underwriters Facing Anti-Trust Suit

Department of Justice expected to file civil suit in New York within a week. Controversy dates back to 1939, when Anti-Trust Division of Justice Department attacked pricing arrangements in sale of Indiana Public Service bonds. Reported IBA seeks exemption on ground it is professional organization.

As noted in last week's "Chronicle," on page 20, the leading security underwriting firms expect to be faced shortly with an anti-trust suit by the Department of Justice. It is reported from Washington that 17 firms will be named in a civil action by the Justice Department in New York City within a week.

The firms expected to be named as defendants are as follows:

Morgan Stanley & Co.; Dillon Read & Co.; Kuhn Loeb & Co.; Harriman Ripley & Co.; First Boston Corp.; Blyth & Co.; Lehman Bros. Co.; Goldman Sachs & Co.; Drexel & Co.; Glore, Forgan & Co.; Smith Barney & Co.; Eastman Dillon & Co.; White Weld & Co.; Union Securities Corp.; Stone & Webster Securities Co.; Kidder, Peabody & Co.; and Harris Hall & Co.

Among the firms who participate in underwriting syndicates and occasionally head up syndicates, which are believed not to be included in the pending suit, are Merrill Lynch, Pierce, Fenner and Beane; Lee Higginson & Co.; Lazard Freres; Halsey Stuart & Co., and Otis & Co.

It is expected that one of the points of attack by the Justice Department is the price maintenance provisions in the syndicate agreements. In the case of the Public Service of Indiana bond syndicate, in which the Justice Department first attacked these price provisions as illegal, the Securities and Exchange Commission in its decision stated:

"Though we think it unnecessary to decide the point, we are inclined to the view that the price maintenance agreements now before us are not illegal under the Sherman Act."

The Commission added that "the practice of combining to purchase and sell at agreed prices is not merely an arbitrary antiquity of tradition or a conscious attempt to avoid competition, but arises from the conditions and peculiarities of the business of raising capital."

The Department of Justice in taking the opposite view has hinted that competitive bidding should be required for all corporate securities.

A contention by the National Association of Securities Dealers, Inc. that any change in the pricing provisions would upset the whole marketing machinery in the securities industry was tossed aside as immaterial.

According to a United Press dispatch from Washington, the Investment Bankers Association has sought assurances from the Justice Department that it would not be involved in the anti-trust suit against the individual underwriting firms. The Association, it was learned, has filed a lengthy memorandum in which it contends there is no justification for making it a co-defendant since it is a professional organization with a total membership of 716 firms.

Our Reporter's Report

With the series of huge utility and telephone undertakings now out of the way, the new issue market currently appears to be moving into a period which will bring out a run of much smaller operations.

That is if any great part of the multiplicity of small deals now being talked of and, in some cases in the negotiation stage, develops into business for the bankers.

Most bankers and dealers still are inclined to shiver at the mere mention of a couple of the recent big deals which went "sour," but there is a feeling of relief that this episode has passed into history after having served to promote a bit more realism in figuring bids.

What the investment world would appreciate at the moment more than anything else would be evidence of some revision of ideas of major borrowers with regard to the market and what it will take.

Corporation finance officers, it is pointed out, are bereft of banking advice under the operation of the competitive bidding rule and as a consequence they seem inclined to attempt large scale financing in one piece when it could be better handled in two or more installments.

Before SEC when corporations sought advice of their banking connections, it was noted, it was customary to let the latter gauge the market and set up the necessary financing frequently involving several operations as capital needs dictated.

Two Fast Operations

Bankers had the pleasure of seeing several really fast deals go through this week, two of them being offered to the public yesterday, and reportedly meeting brisk demand.

Minnesota Mining & Manufacturing Co.'s offering of $10,000,000 of sinking fund debentures, due 1967, plus a block of 100,000 shares of new preferred stock moved out with vigor.

Much the same story held true in the case of offering of 50,000 shares of common stock of the Kendall Corp. brought to market at a price of $36 a share. Here too, investors were found in a more or less aggressive frame of mind.

Free Riders Nipped

The fast operators who sought to "catch on" for a bit of a "free ride" in the Robertshaw-Fulton Controls offering of common stock are understood to have come in for a keen disappointment.

It seems that there were indications that this issue, reflecting widespread demand, would move to a fractional premium over the offering price of 8½.

Well, so the story goes, demand for the issue was all that was expected. But allotments were made around noon and pretty well spread out with the result that the stock settled quickly back to the syndicate price.

Three Large Offerings

Looking over the list of new issues now definitely in sight it develops that there are only three that might be called really large.

Biggest is the $30,000,000 of Consolidated Edison Co. of New York first and refinding mortgage bonds, Series "D" due 1972 on which a call for bids is expected shortly.

Next on the list is R. H. Macy & Co.'s projected offering of $20,000,000 of 2⅞% sinking fund debentures due to mature in 1972.

Immediately ahead is a projected offering of 150,000 shares of General American Transportation Co. cumulative preferred, Series "A," which is a negotiated deal and could come next week, market conditions warranting.

Watching Governments

The whole investment market picture would be helped materially by any evidence of stiffening in the Treasury's list. Here the undertone has been one of sustained heaviness for some weeks.

Recently the group was at the lowest levels of the year in "counter" trading with the Victory 2½s, due December, 1972 but callable 1967 moving below 101¾ on the bid side to yield an indicated 2.39% or thereabouts.

NASD District No. 3 Nominates Sullivan

DENVER, COLO.—John J. Sullivan, Bosworth, Sullivan & Co., has been nominated for the Governor of District 3 of the National Association of Securities Dealers, Inc. Malcolm F. Roberts, Sidlo, Simons, Roberts & Co., and Harry W. Middaugh, Garrett-Bromfield & Co., were nominated to the District 3 Committee. Nomination is generally tantamount to election. The election is to be completed by Nov. 15.

John J. Sullivan

E. Warren Willard, Boettcher & Co., was Chairman of the Nominating Committee.

Sullivan Inst. Mgr. for Eastman, Dillon, Chic.

CHICAGO, ILL.—James V. Sullivan, associated for the past four years with Eastman, Dillon & Co., has been appointed manager of the institutional department for the Chicago office, 135 South La Salle Street, Alvin F. Kramer, resident partner, announced today.

Mr. Sullivan entered the investment business in the 1920's with the Federal Securities Corporation where he was associated with Mr. Kramer. Prior to joining Eastman, Dillon & Co. he was with Paul H. Davis & Co.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market in for period of dullness punctuated by individual sorties as Congressmen sound off. Bulls will need patience next few weeks.

A few weeks ago this column emphasized that buying and selling of stocks, if to be done with any degree of financial success, had to include the element of timing. This was particularly important when the market was in an inflationary cycle. Last week with the market groping for the talked-about 190 level, this column said that there was too much unanimity of bullish opinion. This condition, it was implied, was dangerous and gave the market a cream puff quality which wouldn't do the bulls any good.

* * *

Last Thursday you saw what happened. The calling of a special session was apparently enough to upset the slightly tilted apple cart and stocks, like apples, spilled all over.

* * *

The question asked most often is why the market, which hadn't gone up too much, broke on the news. The answer is that there are a great many people who have no business being in the market; believe most of what they hear and when the anticipated event doesn't occur, or is replaced by something unexpected, the first reaction is to get out from under. So considering the basis of the advance, 12 points in a few weeks, it was reasonable to be on guard for a decline.

* * *

There is little point in talking about what caused it. The market does not pay off on past performances. It is the future that counts. Last week I wrote that the market would go through the 190 figure but not without some backing and filling. I still think so but now with last week's market to point to, it seems to me that we are in for at least ten days of practically nothing before any resumption of the up trend is witnessed.

* * *

The time element will probably wear out the patience of many a trader. Nothing is so tiring as dullness. Yet it is during just such a period that the profitable purchases are made. That Congress and Truman will kick the high prices around is a foregone conclusion. Many of the speeches will make page one banner lines. But unless the solons do something besides beating their chests the inflationary cycle will continue to its inevitable end.

* * *

The commodity markets will continue to get the biggest attention for many reasons, one of which is that it's possible to buy contracts on margin. Were the same margins available in the stock market I have little doubt but that it would be making big news today.

* * *

What to buy is of course an elemental question. I can only repeat my statement of last week that the steels, motors and the utilities are still the best performers. But don't be in a hurry to get them. They all show a decline of anywhere from two to three points ahead.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Two With Kinnard Co.

Special to THE FINANCIAL CHRONICLE

MINNEAPOLIS, MINN.—Arnold J. Tierney and Emil A. Trnka have been associated with John G. Kinnard & Co., Baker Arcade. Mr. Tierney was formerly with Feromack Corp.

Three With King Merritt

Special to THE FINANCIAL CHRONICLE

MINNEAPOLIS, MINN.—Sigward C. Olesberg, Charles P. Vail and Wallace G. Wicherski have become connected with King Merritt & Co., Inc., Pence Building.

With DeHaven, Townsend

Kenneth L. Fleming, 3rd, is with DeHaven & Townsend, Crouter & Bodine, 30 Broad Street, New York City.

European Recovery

By HON. WILLARD L. THORP*
Asst. Secretary for Economic Affairs, Department of State

Economic expert of State Department stresses value of advanced planning in postwar reconstruction and states never before has research and planning been more complete. Pictures European food situation and points out shipment of more food is essential to European recovery. Lays down a long-term recovery program, and denies Germany will be given priority in receiving aid. Says unless Europe recovers, the values of world's culture and civilization will be lost to us.

Never before have so many Americans asked so many questions about the facts of international life. This is a normal reaction of intelligent human beings to the gravity and complexity of the world economic situation and the rapidity with which various aspects of it are changing. It reflects the position of tremendous responsibility into which events have thrown the American people. We know that action or inaction on our part will have repercussions on the lives and welfare of millions of people beyond our own borders, not to mention our own security and well-being.


Willard L. Thorp

Right now most of the questions concern the condition of Europe and especially the food crisis. People everywhere are asking why the countries of Europe are suddenly faced with a major food shortage more than two years after the war ended. Has not the United States generously appropriated billions for relief? Are conditions growing worse in spite of the aid we have furnished? Could we not foresee and plan for this eventuality?

As a matter of fact, I doubt if there ever was a time when advance planning for the world was done on as grand a scale as that by the American Government for the international problems of the postwar world. Advance planning in the political field has given us the United Nations and man's best hope up to now for lasting peace. The United Nations is now a going concern. It is solving problems day by day, although some with which it is faced are about as difficult as any which can be conceived. The early years of the United States Congress were not all quiet and placid. The United States can take great pride for leading the way to the establishment of the United Nations. We must now follow through in the more difficult task of strengthening this international body, and making it more effective.

In the economic field there was also a plan fashioned to meet the difficult problems of the postwar period. During the war the concept of lend-lease had been established, thus doing away with one of the future obstacles to postwar recovery by obviating the necessity for huge payment transfers from our Allies—payments which they were clearly unable to make and we were not eager to receive.

Important International Institutions

Postwar economic planning also embraced the establishment of four important international institutions—two of which were designed to assist economic recovery and two to provide the basis for a more abundant life in years ahead. The first institution was UNRRA, established to provide relief on a non-reimbursable basis to peoples who could not produce the bare necessities of life and did not have the means to purchase them abroad. Its primary objective was to sustain life and the chief element of its program was food. The second institution—the International Bank for Reconstruction and Development—was planned to provide credits to repair the extraordinary damage wrought by total war and to support the development of those areas whose living standards were abysmally low. These two organizations, UNRRA and the Bank, thus were designed to deal with the financial needs of the war-devastated countries during the early postwar period—the first meeting the relief needs in insolvent countries and the second providing credits which might be transformed into the physical capital needed to recover from the devastation of global war and to encourage economic progress in underdeveloped areas.

The two other institutions included in postwar economic blueprints — the International Monetary Fund and the International Trade Organization — represented long-term planning to assure a living and expanding pattern for the postwar world. The first was to offer some assurance that currencies would be convertible and to provide a means of stabilization which would reduce the monetary hazard in the exchange of goods between countries. The second was to deal with the problem of reducing artificial barriers to trade and eliminating trade discriminations.

These institutions were planned to provide the framework within which it was hoped that a better world would be built. They were the product of bold planning. Their creation established international responsibilities where they have never existed before. As in the case of any planning, certain assumptions had to be made, and some of these have not proved to be entirely correct. For one thing, the plan presupposed a degree of cooperation among the Great Powers which to date has been tragically absent. Secondly, there was a serious underestimation of the extent of wartime damage, the exhaustion of the people, and of the scope and complexity of the task of rebuilding entire economies whose very fabrics were destroyed.

Bad Food Situation

In addition, recovery in Europe has been impeded further by certain other unpredictable factors which have placed large segments of the population in a more critical position today than at any time since the fighting stopped. Chief among these is the fact that we did not provide a sufficient margin of safety to absorb the effects of unforeseen disasters. Two crop failures in succession have left Europe at a level of subsistence which has not only slowed down the recovery process but which threatens whole countries with collapse.

Why does western Europe need grain so badly—now—two years after the war? The factors which brought about this grim food situation in Europe are those which, I am sure, will be readily understood by you mid-westerners who

(Continued on page 42)

*An address by Dr. Thorp before the Chicago Council of Foreign Relations, Chicago, Ill., Oct. 23, 1947.

A Step Forward in Government Responsibility

By HON. RALPH E. FLANDERS*
U. S. Senator from Vermont

Sen. Flanders, in outlining functions of President's Economic Council and the Joint Committee of Congress on the Economic Report, points out these organizations signify increasing responsibility of Government for maintaining full employment and economic stability. Stresses importance of impartial and bi-partisan inquiry, and concludes sore spot of inflation now is price of food. Says we will have to review our whole price program.

For the first time in its history this nation is preparing for an all-out attack on the problem of maintaining a high rate of employment and production. For the first time, also, we have two new special tools for the task. These tools were forged by the Employment Act of 1946. One is the President's three-man Economic Council; the other is the Joint Committee of the House and Senate, whose job is to keep abreast of the economic state of the Union and make reports to Congress supplementing those made to the President by his Economic Council. Since under the American system of constitutional government, the President cannot act effectively without the support of Congress, it is vital that there be agreement between the executive and the legislature on measures needed to promote the economic health of the nation. The Economic Council and the Congressional Committee have been given the job of providing the facts on which such agreement can be based.


Ralph E. Flanders

I want to tell you something about this committee and the Council tonight, about what they are doing, and about their own conception of their mission, not only because I had a chance to help bring them into existence, but because they are tackling the most important problem the government has to solve today. It is so important a responsibility that it can only be put into proper perspective against the background of the life and death of our civilization.

What we are talking about is an over-all government approach to the problem of prosperity. For the first time we have agreed to bend all our energies to maintaining the economic health of the nation. Hitherto, we have been intently concerned with these matters only when employment and production have been at low levels. We have sought for remedies to cure a sickness rather than for the hygiene which will keep us in health. We now embark on a giant experiment in preventive medicine for the economic organism. We are determined to improve and maintain a high level of employment and production, to prevent a recurrence of unemployment of men and machines and the worry and suffering they entail.

Government's Responsibility

We are recognizing that a part of the responsibility for the national health lies with the government. Until this time we have looked at government responsibility as a matter of incidental importance in connection with whatever legislation might be before us. In general, the pressure for legislation has been buttressed with arguments that it would have a favorable effect on the economy as a whole. Too seldom have the policies advanced been approached initially from the direction of the general welfare. Too often the theory has been that the sum total of advantages to the special interests would represent a total advantage to the nation as a whole. Such has not always been the case. The special interests served too frequently have found themselves in conflict with each other to such an extent that the general welfare has been lost from sight and has suffered.

The Employment Act of 1946, which embodies the over-all approach to prosperity, provides that the Economic Council make an annual report to the President on which he may base an economic message to the newly convened Congress. It provides for such interim reports as the Council may feel necessary. These have been found of increasing value not only by the President himself, but by legislators, businessmen, newspaper editors and, indeed, all those who need a clear picture of economic conditions and prospects. The Council also holds frequent conferences with the Pres-

(Continued on page 22)

*An address by Senator Flanders before the New York "Herald Tribune" Forum, New York City, Oct. 21, 1947.

Griffin & Vaden, Inc. Formed in Raleigh

RALEIGH, N. C. — Griffin & Vaden, Inc. has been formed with offices in the Insurance Building, to conduct a general securities business dealing in unlisted stocks and bonds, North Carolina State and municipal bonds and investment trust issues.

Officers are George I. Griffin, President and Jerry B. Vaden, Secretary and Treasurer. Mr. Griffin has been conducting his own investment business in Raleigh and prior thereto was Vice-President and Sales Representative in North Carolina for McAlister, Smith & Pate, and was with Herrick, Waddell & Co. Mr. Vaden was an officer and manager of the trading department for Kirchofer & Arnold, Inc.

Mutual Funds

By HENRY HUNT

Common Stocks Regain Favor

An analysis of third quarter reports of leading mutual funds reveals that net sales of common stock funds showed an **increase** of 55% over the second quarter while bond and specialty fund sales showed a **decrease** of 33%. Balanced fund sales showed a moderate increase over second quarter results but were approximately 6% under those of the first quarter as will be noted from the following table.

Net Mutual Fund Sales
(000's omitted)

1947—	Common Stock Funds	Balanced Funds	Bond and Specialty Funds
First quarter	$16,600	$17,500	$18,100
Second quarter	10,800	15,700	16,300
Third quarter	16,700	16,500	11,000

Sales of one sponsor with a leverage common stock fund are said to have contributed heavily to the sharp improvement in the showing of common stock funds but the about face in the trend of sales in equity funds may be significant.

Gross quarterly sales of common stock funds since the beginning of 1946 have been as follows:

1946	First quarter	$36,200,000
	Second quarter	25,400,000
	Third quarter	17,200,000
	Fourth quarter	21,900,000
1947	First quarter	23,300,000
	Second quarter	16,900,000
	Third quarter	22,100,000

It will be recalled that the two poorest quarters, the third of 1946 and second of 1947, witnessed declining stock prices for the most part with the market approximating its lows for each year in the respective periods. Unfortunately, the average investor is prone to avoid common stocks when the market is lowest.

However, if the recent strength in the stock market continues, we would not be surprised to see sales of common stock mutual funds equal or exceed the volume of early 1946 once again.

Since 1894

Under the above caption, **Calvin Bullock's "Perspective"** discusses in a scholarly and readable manner, stock prices, commodity prices, and business activity during the past 53 years. It concludes: "With the termination of World War II the stock market continued the strongly rising phase which began in the second quarter of 1942 and reached its primary postwar peak in the second quarter of 1946, more than 60% above its prewar level. It has since suffered a sharp decline which appears to be wholly unrelated to the course of business activity and commodity prices. Currently (Sept. 30) the market, as measured by the index used in the chart, is only about 30% above its prewar level and only about 23% above the average level of 1935-39, a period of subnormal economic activity. Unless we are now confronted with an industrial depression of major dimensions, for which we can find little present supporting evidence, the market may be said to be appraising equity values soberly in the light of the current level of business activity and corporate earnings, particularly when related to the prevailing level of long-term interest rates."

To Be Inscribed on Marble

Roland Young, our favorite pixie Hollywood comedian, has already written his own epitaph, "Pardon me if I don't rise."

Incorporated Fully Invested

In a recent letter to stockholders, **William A. Parker, President of Incorporated Investors of Boston**, stated "A year ago there was widespread opinion that this country faced an immediate and sharp business recession, if not a severe depression. With this view the management of Incorporated Investors could not agree. In our letter in the quarterly report for Sept. 30, 1946, we stated our reasons for believing that there was nothing in the economic outlook to justify the abandonment of positions taken in selected common stocks. In support of this view we cited the persistence of inflationary influences, the large unsatisfied demand for consumer goods and capital goods, the extremely low ratio of inventories to sales, the improving productivity of labor and the high level of purchasing power. During the past 12 months business and profits have not only experienced no recession, but have actually advanced.

"An analysis of fundamental factors indicates that the economy rests on a firm foundation. Real purchasing power per capita is well above the prewar level, and purchasing power per family, because of full employment, has improved even to a greater degree.

"Currently, stock prices in relation to other prices and in relation to earning power and dividends are historically low. We do not believe that this maladjustment can continue indefinitely."

No Recession Visible

"These Things Seemed Important" published by **Selected Investments Company** quotes General Motors' Chairman, Alfred Sloan as follows: "I haven't any feeling at all that we are going to have a serious recession in this country . . . measure my point of view largely by the activity of our durable and perhaps our semi-durable goods, especially durable goods dealing with capital investments." Also: "Need not worry about anything but perhaps a minor recession involving certain adjustments where prices and production are out of line. As to General Motors, company's executives have greatest conviction company could sell all cars and trucks it could make in next two years and think other producers are in the same shape."

Notes

Lord, Abbett's Affiliated Fund has borrowed another million dollars making total bank loans of nine million dollars against gross assets as of Oct. 15 of $39 million.

National Notes No. 431, published by **National Securities & Research Corporation**, recommends the purchase of aviation, metal and railroad shares.

During July and August, **Nation-Wide Securities** added to its holdings of the following common stocks: American Brake Shoe, Continental Can, Illinois Power, and Mead Johnson. During the same period it eliminated its holding of Cleveland Electric Illuminating, General American Transportation, General Foods, and International Paper.

As of Sept. 30, **Wellington Fund's** $46 million of assets were divided as follows: Cash and U. S. Government 31%; Investment Bonds and Preferreds 20%; Appreciation Bonds and Preferreds 9%; Common Stocks 40%.

Junior Investment Bankers and Brokers Association of Baltimore Formed

BALTIMORE, MD.—For the first time in many years there has been a strong influx of new blood into the investment banking and brokerage business. A group of 25 young men with such interests in Baltimore have joined together to form an organization known as The Junior Investment Bankers and Brokers Association of Baltimore.

William Legg, organizer of the group, a graduate of Princeton University and of the condensed veterans' course at Harvard Business School, and now with Mackubin, Legg & Company, was elected President. He gives credit for the idea to a group of his friends in New York who have successfully established a similar organization. Mr. Emil Schram, President of the New York Stock Exchange, expressed his sincere interest in giving every assistance to these young groups.

Dorsey Yearley, a graduate of Johns Hopkins University, and now connected with Alex. Brown & Sons, is Vice President. J. Stevenson Peck, affiliated with Stein Bros. & Boyce, whose home was in Wilmington, North Carolina, is Secretary. The Treasurer is Marshall Barton, of Frank B. Cahn & Co.

John Jackson, of Baker, Watts & Co., F. Barton Harvey, Jr., of Alex. Brown & Sons, and Bill Reed, of Robert Garrett & Sons, were elected as members of the Executive Committee.

Membership is open to all men who have been in the business five years or less, affiliated with non-member as well as member firms, whose residence or principal place of business is in the Baltimore area. The 25 charter members invite all young men who are eligible to apply for membership to the secretary, J. Stevenson Peck.

The Association was formed to provide a meeting place for the members, to promote a spirit of cooperation among them, and to further their education in the investment profession. Toward this last end, meetings will be held with men prominent in various fields of industry and banking as speakers. The organization has the active support of the "senior" investment banking organizations and will work closely with the Baltimore Bond Club.

New York, Boston, Chicago, and Toronto have similar organizations, and there are indications that others will be started throughout the country.

Antwerp Bonds Called For Redemption

The National City Bank of New York, as fiscal agent, is notifying holders of City of Antwerp external loan sinking fund 5% gold bonds due Dec. 1, 1958, that $226,000 principal amount of these bonds have been selected by lot for redemption on Dec. 1, 1947, through operation of the sinking fund, at a price equivalent to 100% of the principal amount. Payment of the drawn bonds will be made at the head office of the National City Bank of New York.

First Boston Offers Kendall Co. Common

An underwriting group headed by The First Boston Corp., Goldman, Sachs & Co., and F. S. Moseley & Co. on Oct. 29 offered 50,000 shares (no par) common stock of The Kendall Co., manufacturers of commercial textiles and surgical dressings. The stock, offered at $36 per share, represents a portion of the holdings of H. P. Kendall, President and Treasurer of the company who presently owns 140,665 shares or 35.17% of its outstanding common stock. It is being sold to diversify his estate and increase its liquidity. None of the proceeds from the sale of the stock will accrue to the company.

The Kendall Co. was incorporated in 1924 in Massachusetts under the name Kendall Mills, Inc. and is in part the outgrowth of Lewis Manufacturing Co. with which Mr. Kendall became associated in 1903. In 1928, the company assumed its present name and acquired Bauer & Black, Chicago. Other important acquisitions have been Bike Web Manufacturing Co., South Bend, Ind. in 1929 and Pelzer (S. C.) Mills in 1936.

The company and its subsidiaries constitute an integrated industrial enterprise. Through the Kendall Mills Finishing Division it is one of the largest producers in the country of cheese cloth, absorbent gauze and finished tobacco cloths and has a leading position in those trades to which such products are distributed. Through the Bauer & Black Division it is one of the two largest suppliers of surgical dressings and allied products in the United States and is the largest supplier of elastic goods made from elastic webbing.

For the 28 weeks ended July 12, 1947 the company reported consolidated net profit of $3,853,880, equal, after preferred dividend requirements, to $9.41 per share on common stock. This compared with net profit of $3,382,109 for the calendar year 1946, equal to $8.01 per share.

Swiss Bank Corp. Holders Advised of Exchange Offer

The New York agency of Swiss Bank Corporation is notifying holders of the corporation's bearer shares that on and after Nov. 1, 1947, these shares will be exchangeable for new certificates carrying dividend coupons Nos. 1 to 25, at the agency's office, 15 Nassau Street, or at any of the corporation's offices in Switzerland and England. The old certificates, according to the announcement, are to be presented with talons attached, in numerical order, accompanied by a list of numbers.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF CONNECTICUT

At a meeting of the Security Traders Association of Connecticut held Oct. 24, 1947 at The City Club in Hartford, the following officers were unanimously elected:


John E. Graham


George F. Eisele


Robert Bligh


Leslie B. Swan

President—John E. Graham, Brainard, Judd & Co., Hartford.

1st Vice-President—George F. Eisele, Coburn & Middlebrook, Hartford.

2nd Vice-President—Robert A. Bligh, Fahnestock & Co., Torrington.

Secretary-Treasurer—Leslie B. Swan, Chas W. Scranton & Co., New Haven.

The following will serve on the Board of Governors—E. Holbrook Bradley, Edward M. Bradley & Co., New Haven; George A. Dockham, Hincks Bros., & Co., New Haven; James P. English, Cooley & Co., Hartford, and Frank J. Murray, Day, Stoddard & Williams, New Haven.

SECURITY DEALERS OF THE CAROLINAS

At a meeting of the Security Dealers of the Carolinas held at the Ocean Forest Hotel, Myrtle Beach, South Carolina, on Oct. 10, 11 and 12, the following officers were elected:


J. Lee Peeler


Edw. B. Wulbern

President—E. B. Wulbern, R. S. Dickson & Company, Inc., Charlotte, N. C.

Vice-President—I. M. Read, Frost, Read & Simons, Inc., Charleston, S. C.

Treasurer—J. Lee Peeler, J. Lee Peeler & Company, Inc., Durham, N. C.

Secretary—Malcolm Manning, Vivian M. Manning, Greenville, South Carolina.

The meeting was attended by approximately 60 security dealers from North and South Carolina. The principal address was by Huger Sinkler, Attorney at Law, Charleston, S. C.

SECURITIES TRADERS ASSOCIATION OF DETROIT AND MICHIGAN

At a recent meeting of the directors of the Securities Traders Association of Detroit and Michigan, Inc. the date of Friday, Nov. 21 was set for holding the annual Fall Party.

George Elder of Mercier, McDowell & Dolphyn as Chairman of the Entertainment Committee has arranged an unusual and interesting program. The cocktail party and dinner will be held at the Prince Edward Hotel, Windsor, Ontario.

Members of the Securities Traders Associations in other States are invited and it is anticipated that many will attend.

Halsey, Stuart Group Offers B. & O. Equips.

The company's offering of $2,840,000 of equipment trust certificates, series W, maturing Nov. 1, 1948-57, was awarded to a group of underwriters headed by Halsey, Stuart & Co. Inc. on Oct. 23 on a bid of 99.6191 for a rate of 2⅛%. Reoffering was made at prices to yield from 1.30% to 2.35%, according to maturity.

Other members of the offering group are Otis & Co.; The Illinois Co.; Julien Collins & Co.; McMaster Hutchinson & Co.; The Milwaukee Co., and Mullaney, Ross & Co.

The certificates will be issued to provide for not more than 80% of the cost, estimated to be $3,550,000, of new standard-gauge railroad equipment, consisting of 1,000 50-ton open-top steel hopper cars.

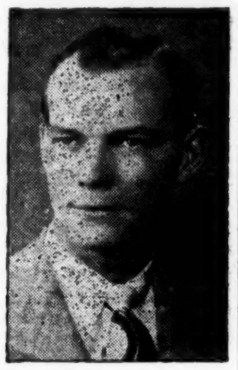
Open End Investment Funds—The Most Significant Development in the Last Fifty Years

By WILLIAM V. TROUTMAN

Investment Analyst, John B. Dunbar & Co., Los Angeles

Writer traces development of open end investment funds and cites statement of SEC they are most important single development in financial history in last 50 years. Shows progress and intrinsic advantages of modern investment trusts to different classes of investors, particularly as regards safety, income, appreciation and marketability.

Recently, a statement made by the Securities and Exchange Commission called the growth of Open End Investment Funds "probably the most important single development in the financial history of the United States during the last 50 years." Although not yet as completely accepted as banks and insurance companies in the field of finance, the funds managed by the modern investment company are fast maturing to that stage of such high standing. The remarkable progress and the intrinsic advantages of the modern investment fund require the consideration of all investors.


William V. Troutman

The Prudent Man Rule

For over 100 years the Boston trustee principles of investment have been well known for distinguished service. This guiding principle is based on the Prudent Man Rule, as handed down in 1830 by Justice Putnam of the Massachusetts Supreme Court:

"All that can be required of a trustee to invest is that he shall conduct himself faithfully and exercise sound discretion. He is to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested."

This, in general, is the rule of the investment activities and the aim of the investment fund managements.

What Is It?

For practical purposes, the terms, "Investment Fund," "Investment Trust," "Investment Company Shares" and "Mutual Funds" commonly heard in financial circles, mean one and the same thing. An Investment Fund is an association of investors through the medium of a corporation or trusteeship whose sole business is investing in securities and whose stockholders have a common investment goal.

Why?

Twenty-three years ago the first investment fund as it is known today was established—its purpose was to provide greater security for the savings of people by pooling these savings in one fund and applying to them the trustee principles of investment. Today there are probably 100 such funds. After having been tested by years of depression, social experiment and war, there is clearly no doubt that these funds have been successful, not only in yielding an adequate income and maintaining security of principal, but also in preserving purchasing power as the nation has moved toward higher permanent wage and price levels.

Evolution

The idea of investment companies originated in Belgium and Holland and about 1880 they were first accepted by the public in Scotland. The idea spread to England and the Scottish and English companies became very popular. Some were designed to deal only in American farm mortgages. A few funds were established around 1900 in the United States but were mostly private enterprises. Not until the '20s did the formation of companies for public participation gain momentum in the '20s. Prior to 1929 most of the funds in United States were the so-called "closed end" type. In this case the funds were managed but only a certain number of shares were issued (most often with senior capital). The shares were then (and in some cases still are) traded on the national exchanges or in the over-the-counter market. Frequently the market price was higher or lower than the liquidating value. Because of the virtual double evaluation and limited participation of the "closed end" type, early in the 1930's the "open end" type came into popularity. It should be mentioned here that from 1929 through 1932, the "fixed trust" was quite in vogue. Here a fixed, unmanaged group of securities was offered and redeemed on the basis of the current asset value, but the idea lost favor mainly due to the immobility and lack of continuous management. In the "open end" fund an unlimited number of investors can participate, while, in addition to continuous management, the investment company agrees to repurchase shares at the current asset value. Since the "open end" investment fund is the most commonly known and has shown the greatest progress, our discussion hereon will pertain only to this type.

A little More Detail

All the Investment Company Funds are generally organized along the same lines. In addition to the usual legal counsel and auditors, a separate custodian (most often a large bank) is employed to act as the security transfer agent and custodian of all monies and securities. The Investment Company, a corporation or

(Continued on page 34)

Canadian Securities

By WILLIAM J. McKAY

Both politically and economically, Canada is steadily assuming a greater importance from the standpoint of this country. The relationship of the two countries has now gone far beyond the stage when the Dominion was regarded as a somewhat insignificant, although pleasant neighbor, whose activities could be conveniently disregarded in so far as they had no marked bearing on U. S. interests.

Canada no longer constitutes an inconsiderable factor in world affairs and the compulsion of current events is increasingly directing attention north of the border. The Dominion in the past has been only too conscious of its relative unimportance in contrast with its great southern neighbor. Bearing in mind also the traditional link with Britain, Canada has hitherto been content to follow a more or less blind course which has been determined by the often divergent policies of Britain and this country.

With regard to Britain, the respective roles from an economic angle are now reversed. As far as this country is concerned, Canada at the present time is in a position to play a valuable part in furthering the economic planning which has as its objective the rehabilitation of world trade, and already Canada has made a tremendous contribution in this direction. There is little doubt that the International Trade parleys at Geneva would have ended in virtual failure in the absence of the strenuous efforts of the Canadian representative, who at the eleventh hour was instrumental in bringing about a reconciliation of previously insurmountable U. S.-British Commonwealth differences on the subject of Imperial Preferences.

In view of the community of U. S.-Canadian interest with regard to foreign relief, the establishment of freer world trade, and the preservation of private enterprise, any measure that will serve to strengthen the Canadian position will be beneficial not only to this country, but also to the world at large. Consequently, it is of vital importance that consideration be immediately given to a U. S.-Canadian economic plan along the lines of the wartime Hyde Park Agreement. Such a scheme would operate within the framework of the larger plan for European relief and would serve as an appropriate foundation. Mention has already been made of the inclusion of South American assistance within the scope of the vaguely outlined "Marshall" suggestion, but time is now of the essence and Canadian willingness and ability to cooperate has already been fully demonstrated In fact, until the world scarcity of U. S. dollars became critical. Canada was operating her own "Marshall" plan.

Thus all that is required to set in motion Canadian surpluses of food and other urgently needed materials, is the implementation of a financial scheme that will permit Canada to resume her task of European relief without further detriment to her U. S. dollar position. As far as U. S. interests are concerned, any expenditure of U. S. dollars in Canada will, as a result of lower Canadian prices in relation to the world-level, be more advantageously employed. Moreover, in view of the fact that Canadian exportable supplies are immediately available, there will be a reduced strain on the resources of this country. Thus constituting an indispensable cog in the world economic machine, the best customer of this country does not have to display any diffidence in taking the initiative in proposing a "Truman-King" or "Marshall-Abbott" plan.

During the week Canadian Nationals in the external section of the bond market were slightly firmer and the internal Dominions continued to hold their recent gains. Canadian stocks reflected the reaction that took place in New York, but the papers remained buoyant and prospects for further advances in this section are still favorable. A few gold-mining issues also resisted the downward trend following promising drilling results.

Lentz, Newton & Co. Formed in San Antonio

SAN ANTONIO, TEX.—Lentz, Newton & Co. has been formed with offices in the Alamo National Building to engage in the securities business. Partners are Leslie L. Lentz and Frank R. Newton, Jr., both of whom were formerly with Pitman & Co.

C. E. Abbett & Co. Formed

LOS ANGELES, CALIF.—Cecil E. Abbett has formed C. E. Abbett & Co. with offices at 3277 Wilshire Boulevard to engage in a securities business. Mr. Abbett was formerly Vice-President of Slayton & Co., Inc. in charge of their Los Angeles office.

James Burnett Lowell Dead

James Burnett Lowell, member of the New York Stock Exchange, died at his home at the age of 74. Mr. Lowell was a grandson of James Russell Lowell, poet and diplomat.

Reynolds Group Offers Robertshaw-Fulton Stks

Public offering of 120,000 shares of $25-par 4¾% cumulative convertible preferred and 500,000 shares of $1-par common stock of Robertshaw-Fulton Controls Co. was made Oct. 28 by a group of underwriters headed by Reynolds & Co. Prices to the public are $26 per share for the preferred and $8.50 for the common.

At the same time Reynolds & Co. announced that they have placed privately $5,000,000 of Robertshaw-Fulton Controls Co 3¾% sinking fund 15-year debentures.

The common shares are being offered on behalf of the Reynolds Metals Co., the sole holder of these shares before giving effect to this financing. The preferred stock is being sold and the debentures have been placed for Robertshaw-Fulton Controls Co.

The company was incorporated under Delaware law on Dec. 23, 1926, as The Fulton Sylphon Co. and following its organization acquired the properties and business of The Fulton Co., a corporation formed under Maine law in November, 1904. On Sept. 24, 1947, Bridgeport Thermostat Co., Inc. (Del.) and Robertshaw Thermostat Co. (Pa.) were merged into The Fulton Sylphon Co. and the name was changed to its present form. The company is engaged primarily in the manufacture and sale of devices for the automatic control and regulation of temperatures and pressures. Executive offices are located at Youngwood, Pa., and principal manufacturing plants at Youngwood, Knoxville, Tenn., Bridgeport, Conn., Scottdale, Pa., Lynwood, Calif., and St. Louis, Mo.

Upon completion of this financing Reynolds Metals Co. will hold 500 000 shares of the common and none of the preferred stock. The new preferred is convertible into common stock at the basic conversion price of $10 per share for the common or 2½ shares of common for each share of preferred held. It is subject to redemption at any time at $27 per share, plus cumulative dividends. The 1,000,000 shares of outstanding common stock are part of an authorized issue of 2,000,000 shares.

District Rep. for Southern Mid-West

The appointment of Charles E. Kimball as District Representative in the Southern Mid-West territory has been announced by Distributors Group, Incorporated, New York, sponsors of Group Securities, Inc. Mr. Kimball's territory will include Eastern Missouri, Southern Illinois, Indiana and Ohio. He previously represented Distributors Group, Incorporated in Philadelphia.

In the investment business since 1921, Mr. Kimball's previous associations were with A. E. Ames & Company, Inc., in charge of Trading and Customers Relations, and as a partner in Charles King & Company. During World War II, he served as Lt. Commander, USNR.

R. J. Steichen Adds

(Special to THE FINANCIAL CHRONICLE)

MINEAPOLIS, MINN.—Paul D. Herges has become connected with R. J. Steichen & Co., Roanoke Building.

With State Bond & Mtg.

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, MINN. — Lloyd A. Frisby and Joseph C. Keckeisen are now with State Bond & Mortgage Company, 26½ North Minnesota Street.

I. B. A. Convention Opens Nov. 30

The 1947 Annual Convention of the Association will be held at the Hollywood Beach Hotel, Hollywood, Fla., beginning on Sunday, Nov. 30, and ending on Friday, Dec. 5. Thus, the Association returns to the scene of its 1940 and 1941 conventions, which were among the most successful it has ever held. Those who attended them will recall that Hollywood provides an unusually attractive and satisfactory place for an IBA meeting.

E. Hopkinson, Jr.

Julien H. Collins

The Board of Governors will submit to the convention the Regular Ticket for 1947-48. This ticket will be as follows:

For President—Julien H. Collins, Julien Collins & Company, Chicago.

For Vice-Presidents—Hazen S. Arnold, Braun, Bosworth & Company, Toledo; Robert W. Baird, The Wisconsin Company, Milwaukee; Hal H. Dewar, Dewar, Robertson & Pancoast, San Antonio; Carey S. Hill, Hill Richards & Co., Los Angeles, and Laurence M. Marks, Laurence M. Marks & Co., New York.

Full details of the convention program have not yet been completed and cannot be announced at this time. The program will, however, be set up so that the mornings, with the exception of Sunday morning, will be devoted to business. The afternoons and evenings will, for the most part, be left free for recreation. There will be a convention session on each morning from Monday through Friday. Prominent speakers will address these sessions. In addition to the convention sessions, there will be two or three meetings of the Board of Governors; and most of the national committees of the Association will hold meetings during the convention and will present their annual reports at that time. With the possible exception of one or two committee meetings, it is not planned to schedule any business sessions for the afternoons or evenings.

It is planned, at this convention, according to announcement by Edward Hopkinson, Jr., Drexel & Co., Philadelphia, President of the Association, to focus the major part of the discussions and deliberations on the world problems facing the United States as a whole, in addition to considering a number of important problems pertinent mainly to the investment banking business. Therefore, a program is being worked out of speakers qualified to express informed and authoritative views on such matters as the Marshall Plan, interim relief to Europe and their economic and political implications both to this country and the other nations involved.

A registration fee of $30 will be charged for each delegate and alternate. No fee will be required for wives or members of the press. Checks covering registration fees should be made payable to the Association and forwarded to the Office of the Association in Chicago.

It is an established policy of the Association that only those who are definitely eligible under the By-Laws may attend an annual convention. It will therefore be impossible to comply with requests to take guests to the convention, other than members of the immediate family of a delegate or alternate.

All reservations for rooms for the convention must be made through the Office of the Association in Chicago.

Hotel rates will be on an American Plan basis as follows:

Double Rooms (2 persons)	$16 per day per person
Double Rooms (1 person)	$24 per day
Single Rooms	$16 per day
Parlors	$10 per day

The bedroom rates quoted above are for rooms with private baths. There are also a few units of two double rooms with one bath. The rates for the rooms in these units will be $15 per day per person.

Most of the rooms at the Hollywood Beach Hotel are double rooms (with twin beds). The single rooms are limited in number and are on the land side of the hotel. As double rooms will not be assigned for single occupancy unless it develops at the last minute that there is unused space available, it is suggested that members make arrangements to share their accommodations.

Requests for parlors will be filled to the extent possible. Some parlors have two bedrooms adjoining them, but most have only one. All of the bedrooms adjoining parlors are double rooms.

The hotel will be able to accommodate a limited number of guests who wish to arrive a day ahead of the convention, or who wish to stay over afterwards. The rates quoted above will apply for one day preceding and 10 days following the convention.

Arrangements have also been made whereby Seacrest Manor and the Surf Hotel will be available if needed to accommodate any overflow. If there is an overflow, member houses will, to the extent necessary, be limited to two bedrooms at the Hollywood Beach Hotel and their additional representatives will be placed at one of the other hotels.

Representatives of the Hollywood Beach Hotel will travel on the convention special trains and will furnish passengers with slips indicating their hotel room numbers. These slips should be presented to the floor clerk on the proper floor, and the floor clerk will turn over the key to the room. It will not be necessary to register.

The hotel's representatives will also furnish passengers with baggage tags filled out with their names and hotel room numbers. One of these tags should be attached to each piece of hand baggage. Then, upon arrival in Hollywood all such baggage will be transported immediately from the station by truck and distributed promptly to the proper hotel rooms.

(Continued on page 38)

Facts and Figures About Industrial Mergers

By GILBERT H. MONTAGUE*
Member of the New York Bar

Commenting on pressure of Federal Trade Commission to be granted power to further restrict industrial mergers, Mr. Montague points out such action would handicap small business in competition with large concerns and will place dead hand of arrested development upon the national economy. Cites record of mergers, and contends strangling taxation is their prime cause.

Because about 1,800 mergers have occurred in the manufacturing and mining industries in the United States between 1940 and 1946, a pressure group of government officials are now besieging Congress to transform the Federal Trade Commission into a vast governmental bureaucracy that would shackle American business with the following fantastic procedure:

Gilbert H. Montague

No corporation shall be allowed to acquire more than $100,000 assets from any other corporation, even though there is no competition between them, unless and until clearance has been obtained from the Federal Trade Commission.

This clearance will be practically unobtainable, because the legislation urged by this pressure group of government officials requires that this clearance shall be conditioned upon a long list of requisite findings by the Federal Trade Commission, and few if any proponents of an acquisition can ever produce the proofs needed for establishing these findings, and fewer still can afford to wait the time and spend the money required to complete the litigation and proceedings necessary to obtain these findings, before acquiring assets from another corporation.

This procedure will put a straitjacket on every small and medium sized corporation, and will guarantee every big corporation against the possibility that its small and medium sized competitors can ever approximate by merger or acquisition the size and efficiency of the big corporation, and will protect the large competitor, and will hurt the small and medium sized competitor, and will place the dead hand of arrested development upon the entire national economy.

This pressure group of government officials suppress in their propaganda the following facts:

No new legislation is now necessary, because today any form of economic concentration, be it any person, firm, corporation, or group of them, that has the power to raise prices or exclude competition, even though it never exercises such power, is unlawful under the Sherman Act, and may be prosecuted criminally and civilly, and be fined, imprisoned, enjoined, and dissolved under that Act, as that Act has been interpreted and enforced by the unanimous decision of the final Federal court on March 12, 1945 in *U. S. v. Aluminum Company of America*, 148 F. 2d 416, CCA 2 C, and in the unanimous decision of the Supreme Court of the United States on June 10, 1946 in *American Tobacco Co. et al v. U. S.*, 328 U. S. 781.

Relying on these unanimous recent decisions, the Attorney General of the United States has created in the Department of Justice a merger unit to scrutinize all mergers, and to halt before consummation all mergers that are questioned. In June, 1947 the Attorney General obtained in Wilmington, Del., an injunction staying the acquisition of assets of the Consolidated Steel Corp. by the Columbia Steel Co., a subsidiary of the United States Steel Corp.

The effectiveness of the existing laws in respect of improper mergers and acquisitions is carefully suppressed in the propaganda of this pressure group of government officials.

They talk about 1,800 mergers in the manufacturing and mining industries in the United States between 1940 and 1946, but they suppress the following facts:

Between 1940 and March 31, 1947, the total number of concerns operating in manufacturing and mining industries in the United States rose from 237,500 to 339,600.

Between 1940 and March 31, 1947, the numbers of new concerns starting in the manufacturing and mining industries in the United States are as follows:

1940	33,300
1941	37,900
1942	34,700
1943	21,200
1944	27,200
1945	43,100
1946	64,500
1947 (3 mos. Jan.-March)	13,400

Certainly it is absurd, unfair and deceptive for this pressure group of government officials to talk about 1,800 mergers in the manufacturing and mining industries in the United States between 1940 and 1946, and to suppress all mention of this phenomenal rise in the number of new concerns starting in the manufacturing and mining industries in the United States between 1940 and March 31, 1947, especially since V-J Day.

Nowhere in their propaganda does this pressure group of government officials mention the reasons for any of these 1,800 mergers.

Questioned by Congressional committees before whom they have testified, they have confessed that they have not investigated to find out the reasons for these mergers.

Strangling taxation is a primary cause.

Every business corporation pays a combined normal tax and surtax of 38% (plus 2% for consolidated returns, but with a preferential graduated return of 21 to 38% on taxable net income up to $50,000), and is required by law, subject to penalty taxes, to distribute 70% of the net income as dividends, unless it can demonstrate the need for greater retention of earnings in the business.

Because each small business concern is owned by a few individuals, all dividends become subject to high individual taxes.

With all the risks and responsibilities in business today, and the growing multiplicity of labor complications, labor laws, voluminous reports to manifold government agencies, collection of social security taxes, salary withdrawal taxes, sales taxes, excise taxes, and with heavy estate taxes on the death of any of the principal owners, which may require taking out a large sum of money to pay estate taxes, thereby wrecking the business, it is not surprising that owners of small business concerns frequently find that if they sell out, pay the capital gains tax on any increment in value, and put the money into diversified investments and trust funds, they will be better off than if they continue in business.

*An address by Mr. Montague before the Annual Meeting of the Cotton Textile Institute, New York City, Oct. 23, 1947.

Michigan IBA Group Holds Annual Meeting

The Michigan Group of the Investment Bankers' Association held their annual dinner meeting for Monday, Oct. 27, at 6:30 p.m. at the Detroit Club, Detroit, Michigan.

Julien Collins of Julien Collins & Co., Chicago, Vice-President of the Investment Bankers' Association of America and nominated as President for the forthcoming year, was the principal speaker and guest of honor.

Other guests included Alden Little, former Secretary of the Investment Bankers' Association, R. A. Stevenson, Dean of the School of Business Administration of the University of Michigan and M. H. Waterman, Professor of Finance of the University of Michigan.

Reports for the year were submitted by various committee chairmen and officers of the group. One of the major activities during the past year has been the Investment Bankers' Association Training Course with classes conducted at the Rackham Building, Detroit, under the supervision of the School of Business Administration of the University of Michigan. These classes have met with much success, and have provided a sound training program for employees of local Investment Banking Firms.

Officers of the Michigan Group are: William C. Roney of W. C. Roney & Co., Chairman; Oscar L. Buhr, Detroit Trust Co., Vice-Chairman; and Gerald Miller, Miller, Kenower & Co., Secretary and Treasurer.

More Credit to Italian Industries

Export-Import Bank approves $36½ millions additional grants, bringing aggregate of Italian credit to $97.3 millions, for reactivating Italian industry and foreign trade.

The Export-Import Bank announced on Oct. 23 that it approved additional credits in the amount of $36,500,000 to Italian industries through Istituto Mobiliare Italiano, thus bringing to $97,300,000 the aggregate of credits approved under an earmark of $100 million made in January for the purpose of reactivating Italian industry and foreign trade.

The credits granted today are in two groups, as follows:

Credits in favor of Istituto Mobiliare Italiano for the account of the leading Italian iron and steel mills in the following amounts:

(a) $7.5 million for the account of Ilva, Alti Forni e Acciaierie d'Italia, Societa per Azioni;

(b) $3 million for the account of "Terni," Societa per L'Industria e L'Elettricita;

(c) $1 million for the account of Dalmine, Societa per Azioni;

(d) $1 million for the account of Societa Italiana Acciaierie Cornigliano;

(e) $2 million for the account of Acciaierie e Ferriere Lombarde Falck, Societa per Azioni.

Credits in favor of Istituto Mobiliare Italiano, aggregating $22 million, for the account of small industrial concerns within the four industrial sectors eligible for financing:

(a) $4 million for small chemical concerns;

(b) $2 million for small rubber concerns;

(c) $6 million for small electro-mechanical concerns;

(d) $10 million for small metallurgical and mechanical concerns.

Credits approved earlier under the January, 1937 earmark include:

(a) $23 million for the account of the Fiat automobile and machine works, Montecatini chemical and mining industries, and Pirelli rubber and cable manufacturers—Aug. 4, 1947;

(b) $5.8 million for four leading Italian shipyards—Oct. 1, 1947;

(c) $32 million for 60 medium-sized metallurgical, electrical, chemical and rubber firms—Oct. 16, 1947.

The steel mill credits approved today are designed to enable the Italian steel mills to purchase solid and liquid fuels and certain amounts of equipment in the United States with a view to sustaining and increasing their production of steel to meet urgent internal Italian requirements and to supply materials to other Italian concerns engaged in manufacturing for foreign markets. Italy had built before the war an iron and steel industry which took care of a large part of its needs. Capacity was reduced by war damage and removals, but there has been a notable recovery. The five steel mills benefiting from today's credits should be able to produce an aggregate of well over 1,000,000 tons of steel in the coming year.

The credits for the small industrial concerns supplement the $32 million previously approved by the Board for the account of 60 medium-sized industrial concerns.

William R. Ehni With Cohu & Torrey in L. A.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—William R. Ehni has become associated with Cohu & Torrey, 634 South Spring Street. Mr. Ehni was formerly a trader for Akin-Lambert Co. and prior thereto was manager for the Los Angeles Corporation. In the past he headed his own investment firm in Los Angeles.

William R. Ehni

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Government security prices continued the down trend, with adjustment this time coming more in the intermediate-term maturities. . . . These obligations apparently are seeking levels that would be in line with a 1¼% certificate rate. . . . The yield of 1.52% for the 2s due Dec. 15, 1952/54 seems to have brought this issue to an income level that is expected to hold, according to some money market experts. . . . There is no doubt that a new pattern of yields is evolving and the short- and intermediate-term obligations should be the first to establish a new base. . . .

Longer-term obligations should have a good resistance level at about 101½ for the longest tops and 105 for the most distant eligible obligation. . . . To be sure, prices may recede from time to time, but this level seems to be low enough to warrant scale purchases of needed obligations. . . . In that way favorable average prices should be obtained. . . .

INFLATION AND INTEREST RATES

The trend of economic conditions in the next six months is very likely to have a great influence upon the policies that will be adopted by the monetary authorities. . . . These measures in turn will chart the future course of the money markets and the government securities markets. . . . A considerable amount of inflation has already been frozen into the economic system. This, however, can be quite well taken care of. . . . It is the developments from here on that will cause the trouble. . . .

A spiral of rising prices and wages, which is a distinct possibility, is what has the powers that be worried. . . . Convulsive inflationary movements would no doubt bring about very drastic action by the authorities. . . . This would probably mean that money rates would increase faster than is expected by most money market followers because the inflation spiral would have to be broken. . . . Beyond doubt the money managers are getting ready for some kind of deflationary action, in order to offset gold inflow, return of currency and the loan trend, especially with Regulation W expiring. . . .

TIGHTENING CREDIT

Recent war loan calls will tighten the money markets, since it is believed that the Reserve Banks will let maturing Nov. 1 certificates run off instead of turning them in for the new issue. . . . Partial redemption of Treasury bills is considered quite likely in order to decrease the credit base and offset to some extent the inflow of gold which has been and is expected to continue substantial. . . . These types of credit restrictions are very effective since they take reserves away from the member institutions. . . .

Tightening of the credit base will have an effect upon the ability of the banks to make loans, which are increasing very rapidly, as well as their purchases of government securities. . . . However, this is only part of the picture, since the member banks have many short-term obligations that still can be used to create reserve balances. . . . This would offset to some extent the credit limiting action of the authorities. . . .

On the other hand, with short-term rates fluctuating, the shifting of these securities in order to build up reserves will be more hazardous. . . . Nevertheless if loaning rates are attractive enough, ways will most likely be found to create reserves in order to make these loans. . . .

BANKS AND INCOME

As for government securities, the banks will have little choice but to go into the larger yielding obligations if the authorities are to continue the policy of retiring the higher coupon issues with short-term low interest-bearing obligations. . . . This should result in a good demand for the long eligibles despite higher short-term rates and the credit restricting measure of the monetary authorities. . . .

This does not mean that bank bonds will not be subject to market fluctuations, because they will. . . . It does, however, indicate that price weakness will be taken advantage of in order to buy needed issues. . . . It should put a floor under these issues with the 105 to 104¾ level looked upon as the lowest to be expected, unless there is a wild inflationary orgy. . . .

NOT ENOUGH

Although inflationary curbing action will be taken by the authorities, to halt the spiral, higher interest rates will not produce more wheat, hogs, cattle, steel, coal or bring to an end the demand for increased wages. . . . Would higher interest rates mean a decrease in the demand for loanable funds? . . . Would dropping government bond prices be anti-inflationary? . . . No doubt monetary measures would have a psychological effect, but these would not be effective weapons to fight the forces of inflation. . . .

Changes in reserve requirements in the Central Reserve Cities of New York and Chicago are being talked about, in conjunction with other credit restrictive measures. . . . This would have a temporary effect upon the money markets, but since the bulk of the excess reserves is held by banks outside of these areas, not too much would be gained over the long run by this action. . . .

SOLD OUT

Selling of the longest 2s has been quite substantial the last few days, with some banks doing outright liquidating while others have been shifting into the longer bank issues, including the partially exempt obligations. . . . There has been some short covering of trading positions in the tops near the lows for the year, because traders believe that they look pretty well sold out.

An Appraisal of Some Banking Problems

By FREDERICK S. BLACKALL, JR.*
President & Treasurer, Taft-Peirce Manufacturing Co.
Director, Federal Reserve Bank of Boston

Asserting government gives lip service to inflation prevention, while being largest single source, of it, industrialist denies high prices are due to speculation and profits. Points to British crisis as example of carrying on controls while destroying incentives, and outlines adverse effects of inflation on savings and investments. Sees no immediate rise in long-term interest rates or decline in building costs, but advises caution in real estate appraisals. Sees likelihood of short primary postwar recession.

Let me disclaim any special powers of prophecy or any access to inside information which is not available as freely to you as it is to me. As a director of the Federal Reserve Bank of Boston, it is one of my duties, I suppose, to be "au fait" with fiscal trends; but it is no less your job, and while I am exposed to these questions to some extent at each fortnightly meeting of the Board, you gentlemen are dealing with them daily, so perhaps it is I who should be seeking drops of wisdom from your lips, rather than vice versa! But I'll do my best to give you my impressions without claiming for a moment that they are more than that.

F. S. Blackall, Jr.

First, as to the impact of government policy on prices and the value of money: Our government, having degenerated unhappily into an institution visibly motivated by political considerations, gives lip service to the prevention of inflation while itself being by all odds the largest single source of inflationary forces. Some of these perhaps are unavoidable; too many are the banal result of a greater preoccupation with votes than with long-term public welfare. Take the matter of prices which are skyrocketing dangerously, especially in food and commodities. If we are going to impose upon ourselves the task of feeding Europe (and mind you I do not say that we shouldn't), we inevitably create a shortage of supply against the background of an enormously expanded demand, under which circumstances only one thing can possibly happen. Prices rise. The United States Government, for example, is overwhelmingly the largest buyer of grains, and while I believe that the Agricultural Administration and like government agencies are sincere in their effort and desire to minimize the impact of their buying on grain prices, you cannot superimpose an unprecedented foreign demand upon a new all-time high of domestic requirements without affecting the supply and, in turn, the supply-demand ratio, which automatically influences prices. In the face of a situation like this, politicians, looking for a scapegoat, yell to high heaven about the viciousness of speculation, although every sophomore in economics knows that speculation performs a vital function in the grain markets. Lest you fail to follow me, the speculator who buys now for future delivery insures that supplies be available in a later period when they may be needed more sorely than at present. When he sells now for future delivery, he enables the processor to plan his production and establish his prices on a stable rather than on a day-to-day basis. Were it not for the speculator, every food processor would have to become a speculator himself in which event most of them would go broke, for commodity speculation is a highly sensitive and specialized art.

Effect of Profits

"Excess Profits" also come in for their share of abuse at the hands of our politicos, despite the fact that the most cursory examination proves that profits exercise but a minor and nominal effect on the price structure. According to a recent survey of profits and prices by the National Association of Manufacturers, current corporation profits account for only about 6% of the national income, and in 1946, averaged after inventory adjustments only 2.8% of sales for the nation at large. In the food and commodity fields, they are substantially less than this—something like 1% for meat packers, for example.

The fact remains that, so long as Europe and the rest of the world beyond our borders fail to produce, the demand on us will continue unprecedented. The effect can only be decidedly inflationary. At least it is becoming something of a cliche to recognize that production is the answer to this problem, but it is a bit saddening to reflect on the fact that the standard political remedy for our ills is more controls. Here again, any primary student of economics knows that the way to stimulate production—and I think the only way which has ever worked—is to offer greater and greater incentives to production.

You don't have to read history to see this. Just look at our poor British cousins across the sea. England, one of the world's great exporters of coal throughout industrial history has reached the point where she can't dig enough coal to keep herself warm or run her factories 40 hours a week without interruption. Her system of rigid price controls and strict rationing has brought her food production to an all-time per capita low. Why, you ask? The answer is simple. Her government prefers, with misguided idealism, to try to get the miners to dig more coal for the welfare and glory of old England, instead of taking the obvious course of trying to get them to dig more coal to save their own skins and fatten their own pocketbooks. Her economic planners (will they never learn!) are trying to keep the cost of living down by placing ceilings over prices instead of floors under production. Touchdowns may be scored for the glory of dear old Rutgers, but it is not yet recorded that production was ever raised for the sake of an ideal, except possibly in war time. This may be a sad commentary on human nature, but there it is, and all history proves it. England's plight, where eggs are 30 cents a dozen but they get one a month, reminds me of the story of the bride and the butcher: "How much is hamburger?" inquired the young wife. "Sixty cents a pound," the butcher answered. "That's outrageous," she exclaimed; "Why, down at the corner store they have it for twenty-five cents."

"Well, why don't you buy it there?" asked the butcher. "Because they haven't any," she answered. "I see," said the butcher. "Well, when I don't have any, I sell it for ten cents a pound."

The British Situation

It might be worth while to digress a minute and discuss the British situation, for it may be no exaggeration to say that England's future—and perhaps, in a measure, our own—will hang to a considerable extent on the policies we follow in extending her aid. It has been my privilege recently to discuss England's present plight in an intimate and off-the-record manner with a number of her industrial and financial leaders. To be sure, these men were not from the crackpot group which distinguishes the dominant party in England today. Rather, they were businessmen and bankers like ourselves, but I submit, considerably more typical of the element which has made that nation of shop keepers greater than the Attlees, the Laskis, and the Herbert Morrisons. It seems significant to me that, without exception, their prescription for United States policy in extending further aid to Britain is to stipulate our requirements in no uncertain terms and make our loans contingent upon performance of the contract. Neither they nor I have in mind, in this connection, the terms of repayment. They are thinking, as we should, in terms of requiring England to produce *now* in consideration of being fed. As one business leader suggested to me, "If I were Mr. Truman, I should tell Mr. Attlee, 'For each so and so many thousand tons of coal you dig in excess of established quotas, we'll advance you another million dollars.'" In other words, if the benighted and misguided Labor Party hasn't brains enough to operate on an incentive basis, let's restore the incentive ourselves. Some such course, whether applied by the British internally, or enforced by us externally as their bankers, must come about of England is going to rise from the mire. And make no mistake, gentlemen, she is currently in a mess, with no visible evidence of early improvement. Such a policy on the part of the American nation would take courage and would subject us to a lot of abuse and calumny at the hands of the government-controlled press. Momentarily, it might make us unpopular, but the day would come when Englishmen from every walk of life would come to recognize that in time of need we had saved their nation. This is not my opinion alone, I stress; it is the considered view of great numbers of English businessmen and bankers; and to the extent that you can make yourselves articulate in Washington, you should try to get this message through. If England turns primarily to the Left, the adverse repercussions on our own politics and economy are bound to be far-reaching.

Savings Banks and Inflation

But I am digressing. We were speaking of inflation and the question arises as to the potential impact of inflation upon the savings bank business. Because you deal in dollars, both on the receiving and paying side, it often is erroneously assumed that inflation is a matter of little consequence to bankers. This, of course, is not the case. As dollars become less valuable, the incentive to save is destroyed, and the inevitable result is a sharp decline in deposits. What can be more serious, especially in inflation threatens to approach the

(Continued on page 39)

*An address by Mr. Blackall before the Savings Banks' Association of Connecticut, New Haven, Conn., Oct. 22, 1947.

The United States and the World Crisis

By JAMES P. WARBURG*
Director, Bank of the Manhattan Company

Prominent banker and publicist warns world crisis is impending unless U. S. aid is given to rehabilitate Europe and Asia. Outlines relief and reconstruction needs and points out political factors impeding recovery. Advocates return to rationing in U. S. and says we should not oppose democratic socialism in Europe because it is on our side against Russia. Contends our policy should be directed only against hunger, poverty, desperation, and warns against unilateral political action or giving restrictive and inadequate aid.

It is difficult for us in the United States to realize that we are in the midst of an acute world crisis. We live in a comfortable well-stocked house, high up on a hill which overlooks the plain where dwell the other peoples of the world. Down on the plain there are floods and pestilence and famine. We know this. We are saddened by it. We send medicine and food. We do what we can to help the neediest cases. But we do not fully realize that the floods are rising and will, unless arrested, engulf our own hilltop. We are not fully aware that, without meaning to do so, we have collected on our hill-top practically all the available equipment for fighting and controlling flood-waters and that, unless we make this equipment available, the people in the valley are helpless.

James P. Warburg

The world crisis is a crisis of lagging or wholly impeded production. Because a great war has been fought in Europe and Asia, ravaging those continents, exhausting their peoples and resources and throwing out of kilter the delicate balance of their economies, the Eastern Hemisphere—from the British Isles to Japan — is suffering from acute shortage and much of it is in a state of political unrest. Peoples, who have for centuries been self-supporting, find themselves unable to produce enough to sustain life at even the lowest subsistence level. Or, if they can produce some things, they find themselves unable to exchange them for other necessities which they have never in the past produced for themselves and have always purchased in other countries.

We, in the Western Hemisphere, have so far been untouched by this crisis. Our half of the world has a surplus of food and raw materials. Its productive capacity has increased while that of Europe and Asia has diminished. In money value, the United States alone at present turns out about two-thirds of the entire world's production. Moreover, the United States is at present the sole surplus producer of most of those particular things which are needed in Europe and Asia in order to restart the wheels of production.

Three Categories of Needs

The needs of Europe and Asia fall into three categories: I shall name them in order of immediate necessity, although this is the reverse of their order of ultimate importance.

First, there is the need for food, fuel and fibres. Unless Western Europe and large parts of Asia receive food and coal from overseas, as well as some textile raw materials, this winter will bring disease and starvation to millions of people. Medical supplies also belong in this category.

Second, there is the need for all sorts of incentive goods. That is, the necessities beyond the minimum of food and fuel, which all men desire for themselves and their families and for which they will work. I mean such things as shoes, clothes, household utensils, simple tools and simple materials with which to repair and rebuild. One must realize that throughout large parts of Europe and Asia today people can see no use in working beyond the point required to eke out a bare living. The things they would like to buy with the money they might earn simply do not exist—or exist only on a small black market which is hopelessly out of their reach. They see no point in saving money because they have lost confidence in its future purchasing power. The chief reason why people seem to have lost the will to work is that they are deprived of the means for translating their work into either the satisfaction of their present needs or insurance against a rainy day in the future.

Third and last, there is the need for the tools of production and especially for the tools or equipment with which to make other tools. Modern industry begins with coal. Coal means power, transportation, steel, machines, machine-parts and every sort of manufacturing equipment. Coal also means food through fertilizer; it means metal containers for preserving food; it means fuel for homes, and thus enables men to work in factories. But, to supply an industry with coal, you need mining machinery, you need men with tools in their hands and the incentive to use them, you need a transportation system to get the coal from pithead to factory and home. If you supply the tools and machinery to rehabilitate your coal mines and to get your transportation system working—if you supply your workers with food and the incentive to work—then you have moved the key log in the log jam.

The next thing is iron. Once you have coal and iron, you can make steel. With steel you can rebuild or repair factories of all sorts. Given a certain number of machine-tools to begin with, you can then make factory equipment. You can make steel rails and rolling stock.

All along the line, as you get started, you will find yourself up against an increasing number of problems. Each factory will require certain raw materials or semi-manufactured goods in order to get going. For each factory that gets under way you need more incentive goods in order to have more workers willing to work. As the process of rehabilitation continues, each country finds that it is more and more dependent upon being able to obtain certain things from other countries. These imports have to be paid for by a corresponding volume of exports. Very soon it becomes apparent that, unless recovery in the various countries of major importance goes more or less hand in hand, no single country or group of countries can get very far along the road to normal health. On the other hand, it also becomes apparent that, if recovery sets in at a number of key points in the world's economy, a powerful push is given to the world economy as a whole.

Political Factors

The purpose of this homely and oversimplified description of the present crisis of production is merely to indicate the nature of the economic problem which we face at the present time. Unfortunately the crisis is sharpened and its cure made more difficult by political factors of which we are made more aware every day.

In the last six months we have moved away from a world-wide cooperative effort to repair the ravages of war—away from the attempt to create a single community of peoples based upon the realization that not only peace but prosperity had become indivisible. We have moved far in the direction of a world divided into two competing, if not hostile camps, each trying to overcome the economic crisis in its own sphere of influence, in its own way and with little consideration for the other. It may not be a popular thing to say, but I think it is important for us to realize that in the eyes of other peoples the blame for this tragic development does not rest exclusively upon the Soviet Union.

Most Europeans and many Asiatics feel about the recent attitude and actions of the Soviet Union much as we do. The Soviet leadership seems to them—as it seems to us—needlessly harsh, inconsiderate and doctrinaire. They are aware of many of the distortions of Soviet propaganda. In spite of this, what we consider Russian expansionism and aggression is not always regarded in quite the same light by Europeans or Asiatics. They are more inclined than we to regard Russian annexations of territory as merely the recapture of lands which once belonged to Czarist Russia. They are more aware than we of Russia's sufferings and needs, and less fearful of her present military power.

We, on the other hand, appear to most of the peoples of Europe and Asia both as the one ray of light in the present darkness and, at the same time, as one of two great thunderclouds on the horizon. We are the ray of hope because we alone possess the resources which, if used, can push the world's economy off dead-center. We are one of two thunderclouds because, under Russian provocation, we seem at times to become provocative ourselves. It is a curious experience for an American studying conditions abroad to discover that the United States, while on the whole better liked than the Soviet Union, is almost equally feared. In trying to discover why this should be true I have run into a number of recurring themes.

First: Due to the separation of powers between our Executive and Legislative Branches, people abroad feel that they cannot count on assurances or declarations of policy by our President or Secretary of State. Furthermore, they feel that, in an election year, our foreign policy is likely to be swayed by considerations of domestic partisan politics. This arouses both fear and resentment that so huge a power factor in the world should be almost completely unpredictable.

Second: The belief is widely held that we are becoming as doctrinaire and fanatical about free enterprise capitalism as the Russians are about totalitarian communism. We seem at times bent on attaching such political strings to economic aid as would force other peoples to remodel

(Continued on page 40)

*An address by Mr. Warburg before Foreign Policy Association, Baltimore, Md., Oct. 20, 1947.

Securities Salesman's Corner

By JOHN DUTTON

Several weeks ago I met an insurance salesman while traveling on the train between Rochester and New York. While passing the time it was my pleasure to draw him out concerning the various phases of his work. The modern life insurance salesman is a far different craftsman that the old style insurance man we used to know. In the insurance business they have approached the problem of selling life insurance from a scientific angle. We could use some of the life insurance technique in selling securities much to our advantage.

The first thing I noticed about this man was his keen interest in his job. Not that he tried to sell me life insurance either directly or indirectly. We discussed selling intangibles, or, rather, he discussed his business. Those life insurance fellows have analyzed their job down to a fine point. First, they know what they are selling. This fellow was on his way to the home of ice in New York. I asked him what he got out of such a trip. He said, "You get an idea of how they make the stuff by going into the home office. You talk to the underwriters and become acquainted with the mechanics of this business. It all adds up and you'd be surprised how much it helps at times. If some fellow asks you a technical question, you can give him the answer from first-hand knowledge. Then it is always good to know a few of the boys inside in case you've got a borderline situation regarding risk." He wasn't missing any tricks, was he?

He told me how he does most of his business while he is fishing, or at his club. He doesn't make his sales there, but he exposes himself to business through associating with other men who share his hobbies and interests. I was surprised to learn that he considers it an absolute necessity to interview at least 10 to 15 new qualified prospects a week. He makes no attempt to sell on these first calls. His main objective is to sell the idea that he is competent in his field. His personality and the law of averages does the rest. HOW MANY SECURITIES SALESMEN ARE SEEING TEN TO FIFTEEN NEW PROSPECTS A WEEK TODAY? Remember he said prospects that were QUALIFIED TO BUY HIS PRODUCT.

The point that made the strongest impression during our conversation was his insistence that the most important factor in making the sale itself was to be present when the opportune time arrived. We've all heard of the psychological moment—these insurance fellows know the value of being there when the prospect is receptive. I asked him how he found out these things. He said it was sometimes a death benefit check that brought business from other members of a family, an accident to a friend, or some sudden shock that caused people to think about the bargain they could get in life insurance when they needed it. Other times, he just ran into information of births, weddings, etc., through his wide contacts and through being constantly on the job.

We've used one technique in the securities business until it's threadbare. A bull market comes along and we say here's your chance to make some money. That's our story and there is no use denying that most people like it better than any other they have ever heard. Possibly we could see those 10 to 15 extra qualified prospects that many of us are not calling on today and increase our business by doing so. After all, we don't have to wait until Aunt Minnie dies to find an opportune time to sell stocks and bonds. Most people always think stock prices are going up (even when they are not) and quite likely they just want some new face to tell them the same old story over again—whether it's true or not. The answer to more business today, or any other time in the last analysis, is to know your job thoroughly, see people who can buy your product and give them what they want *when they want it.* Even the insurance fellows do it this way, I've found out.

* * *

How About Leo Durocher?

The grapevine has it that we will soon have another new chairman for the SEC. How many does that make in 14 years? You don't think there is something wrong with the job that all these able fellows only last a year or two. After all, some of them became judges and one is now on the Supreme Court. We nominate Durocher—any other suggestions?

William M. Carley With Adams & Co. in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — William M. Carley has become associated with Adams & Co., 105 West Adams Street. He was formerly with Webber, Simpson & Co. and Bennett, Spanier & Co. In the past he conducted his own investment business in Chicago.

Fred Schulz Joins E. H. Rollins Dept.

CHICAGO, ILL.—Fred W. Schultz, formerly with Blair & Co. and A. G. Becker & Co., has joined E. H. Rollins & Sons, Inc., 135 South La Salle Street, in their municipal bond department. Mr. Schulz was recently manager of the municipal department for M. B. Vick & Co.

Treasury Issues Stricter Regulation on Gold Traffic

Secretary Snyder says aim is to implement request of International Monetary Fund to prevent export of gold for sale at premium prices.

Secretary Snyder on Oct. 25 announced the adoption of amendments to the Gold Regulations issued under the Gold Reserve Act of 1934. These amendments are in furtherance of the request of the International Monetary Fund that its members take measures to prevent international transactions in gold at premium prices. The amendments supplement the statement made by Secretary Snyder and the Board of Governors of the Federal Reserve System asking American individuals, banks and business enterprises to refrain from encouraging and facilitating this premium price traffic in gold. The amended Regulations come into effect on Nov. 24, 1947.

John W. Snyder

Fine gold in bar form, which the Treasury has licensed for export for industrial, professional or artistic use, has been sold in some instances at premium prices for hoarding. Accordingly, the present amendments permit only semi-processed gold to be exported for industrial use except in cases in which the gold will be refined or processed and returned to the United States.

The amended Regulations permit the export of gold refined from imported gold-bearing material only when the refiners in the United States do not participate in the sale of the refined gold. In addition, such gold may be exported only when the exportation of gold-bearing material from the country of origin and the importation of the refined gold into the country of destination do not violate the laws of those countries.

In effect, the amendments implement the request of the Monetary Fund by preventing persons and organizations within the United States from participating in the export of gold for sale at premium prices. It is expected that other countries will take measures of a similar nature to control activities of persons and organizations within their jurisdiction and thereby reduce the traffic in gold at premium prices to a minimum. The Treasury is also continuing its study of gold transactions in which persons within U. S. may be participating.

The present amendments also make several changes of an administrative nature in the Gold Regulations. One effect of these amendments is to dispense with the requirement that applications and reports under the Gold Regulations be sworn to before an official authorized to administer oaths.

Comparison of '19-'20 and Now

(Continued from page 4)

creased sharply. On June 20th the government wheat price support program expired and with it the $2 per bushel floor under this grain. By year-end the price had declined from a peak of $2.93 in May to $2.01, and by 1921 the price had gone to $1.44.

Discrepancies With Present Situations

From the above brief account it becomes readily apparent that a number of wide discrepancies exist in the picture of post World War 1 and the present scene in the United States. No credit stringency exists now to hamper business and tight money conditions are not yet in sight. While we have had our waves of strikes and wage increases, the ensuing price increases have as yet not proven a serious obstacle to increasing sales. Wages and consumer income in relation to prices, and to food prices particularly, are not as far out of line as they were in 1920. Exports do not account for quite as disproportionate a share of the national income as they did in 1920 and will enjoy the benefit of large government subsidies for some time to come. Retail inventories having gone through one period of downward adjustment this spring are relatively conservative. Construction has recently been rising contra-seasonally and in the face of higher material costs. Exports of farm commodities are practically a government monopoly supported by government credits instead of private capital as they were in 1919-1920. The parity price guarantee continues until the end of 1948 for farm products. True, shortages in housing, automobiles, steel, railroad cars, to mention only a few, existed in 1920 as they do now. But we have a better balanced economy now, and while sharp maladjustments are likely to appear, they are more likely to crop up singly rather than all at once and our method of handling them has greatly improved. For instnce, our business leaders are now much better informed and much more sensitive to changing conditions than they were 27 years ago. The resultant alertness and flexibility on the part of management is one of our best safeguards against a repetition of the 1920-21 depression.

A Step Forward in Government Responsibility

(Continued from page 15)

ident and his cabinet, known as "economic seminars."

The Joint Committee of the House and Senate, also provided for in the Employment Act, has an economic staff to receive and consider the President's message and report its recommendations back to the Congress. The law does not prescribe any particular remedy nor demand any specific gift of prophecy. Rather, it requires, in effect, that the Economic Council shall keep the President currently informed of changing conditions which might require changes in legislative enactments or administrative action. It likewise permits the joint committee to continue studies and investigations of the same sort, so that the Council's reports and the President's messages will reach a legislative committee already at work considering the same subjects. Finally, it helps concentrate the whole range of government activities on the central purpose of maintaining the material well-being of our people.

Unsolved Problems

While the mechanism provided and the method of operation prescribed seem well adapted to supporting this central purpose, there are nevertheless a number of unsolved problems which will have to be worked out as we gain experience. One of these is the problem faced by the President's Economic Council. What are its relations with the President and the Administration to be? Should it be a super-body prescribing policy for the Cabinet, or at the other extreme, merely one of many groups reporting to the President? The one extreme is impracticable; the other would be deplorable. In general, the position of the Council in the Administration will be determined by the ability and character of its members. Its present make-up is such as to insure an effective relationship. Dr. Edwin Nourse, Mr. Leon Keyserling and Mr. Clark, the three members of the Council, are thoughtful men with an unusual degree of practical experience combined with their theoretical grasp of economics.

There is another problem which the Council faces which is of great importance. Shall it write its reports *to* or *for* the President? Shall it study the problems with pure objectivity and leave it up to the Chief Executive to decide how much he will be influenced thereby or even whether or not the report shall be published? Or, on the other hand, shall they in a measure be amenable to the point of view of the Administration and therefore prepare a document which the President will gladly publish and support?

It is perhaps improper to raise this question at all, for there can be but one answer as to which of these procedures is in the public interest. Capable, experienced and devoted men reporting and recommending objectively can in the long run be of the greatest service to the President and to the country. The wise Chief Executive will prefer this course on the part of his Council and we have no reason to believe that our President is not wise in this respect.

There are also questions unresolved in the legislation which concern the second tool for maintaining employment—the Joint Committee of the House and Senate. The most serious questions to be answered are: How can the influence of this Congressional Committee be increased and through what channels shall it act?

As to the first question, it is a matter of course that the committee is made up of members of the two parties, and it is by legislation a Joint Committee of the House and Senate. Its bi-partisanship and the fundamental nature of its duties should lead toward rather than away from non-partisanship in its deliberations. This should make it easier to gain influence on both sides of both houses of the Congress.

It must be said, however, that the committee's influence is not as yet strongly felt in the legislative body. It has come in as a new and additional assignment undertaken by members whose time already is fully occupied by earlier important committee assignments. It includes chairmen and leading members of other committees. The pressure of work of these other assignments has been such that many of the more able members of the Joint Committee have found it difficult to attend the few meetings already held. These are some of the reasons why the influence of the Committee is as yet far from measuring up to its responsibilities or opportunities.

In the last few weeks subcommittees of this Joint Committee have been holding hearings on prices throughout the United States pursuant to a resolution introduced by Senator Baldwin of Connecticut. In the holding of these hearings and in the subsequent analysis and report of the information gained from them, the Committee is having and will have its first opportunity of doing serious work and presenting constructive suggestions to the Congress. In the hearings at which your speaker has been present, the attitude of the members has been highly objective. Partisanship has been at a minimum. This is a good augury for the development of the work of the Joint Committee for the future.

Equitable Distribution

I have been talking of the vital need for securing high employment and production. It is equally essential that the goods and services resulting from this high employment and production shall be distributed justly. Indeed, it is unlikely that employment and production can be maintained at high levels without such a distribution. Thus the two are really different facets of the same problem.

A just distribution is one based on the value of services rendered. It must take into account managerial abilities, the reward of special skills and experience, long training periods, continuity in attention to work, severe physical conditions under which work is done and degrees of responsibility attached to the performance of the duties involved. A just distribution would recognize the productive value of savings, applied to development and installation of more efficient equipment. It would also provide for the basic needs of those unable to work owing to age, physical condition, or other inherent handicaps. It would not, however, be tender toward those able but unwilling to work.

One cannot attend hearings such as those we have been holding without being profoundly disturbed about this very problem of just distribution. It is becoming clear that in our larger cities there are important groups that are being left behind by inflation. There is the great class of white collar workers, the aged or incapacitated dependent on pensions, the colored population and other large groups who have lagged behind in the progressive increase in wages and prices. One cannot escape the conclusion that every price rise for the sake of increasing profits already normal, and in some cases abnormally high, every wage rise demanded and received by those already receiving high wages and resulting in further price increases, are gained at the expense of this group of citizens that is being left behind.

Under present circumstances, the profit determinations and the wage negotiations of our major industries and union organizations cease to be private matters. They are public matters and must be determined with the public interest in mind, if business and labor are to retain their present degree of freedom from government control.

Sore Spot of Inflation

The sore spot of inflation is the price of food. In the low income groups it takes up a larger and larger share of the meager family income. This proportion, traditionally about 40%, rises to 50%, to 60%, and even higher. Money needed for clothing, for education and recreation, must be spent for food, and still the nutrition of the family is insufficient and the health of the new generation is undermined. And, apart from the social evils of this situation, there is the threat that inability to buy the less essential consumer goods will bring on a recession in important manufacturing industries and a consequent imbalance in the whole economy.

In general we have not found that it is profiteering in food processing or distribution which takes heavy toll of the consumer dollar. It is in the primary markets and exchanges and in the production of food and feed grains and livestock on the farm where we find the great increases. In my opinion, we will have to review our whole price program. The government guarantees support prices to bring forth the maximum production from our agriculture. Why should market prices be allowed to rise far above these support prices, bringing distress to low income families and making our relief for foreign peoples an intolerable financial burden to them and to us? What simple means, not so complicated and extensive as those of war time, can be devised to bring these primary foods within the reach of needy Americans and starving Europeans?

It it questions like these that the President's Council and the Joint Committee of Congress are facing. Unless we find the answers, and the needed steps are taken, our inflation will explode in unemployment. Our free political and social institutions will probably disappear if this happens and they will certainly not survive if it should happen twice.

Sumner Slichter said some months ago that the two great problems now facing us are: How to get along with Russia; and how to have full employment without inflation. We cannot solve the first unless we solve the second.

Goodbody & Co. Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Goodbody & Co., 105 West Adams Street, have added George C. Gordon to their staff. Mr. Gordon was formerly with Hemphill, Noyes & Co.

With Hanrahan & Co.

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, MASS.—Thomas J. Lynch has joined the staff of Hanrahan & Co., 332 Main Street, members of the Boston Stock Exchange.

Sees "Leakage" of British Capital

Writing in Lloyds Bank Review, Prof. Lionel Robbins, British economist, calls attention to seepage of British capital abroad.

In the October issue of "Lloyds Bank Review," published by Lloyds Bank, one of the five great banks in England, Prof. Lionel Robbins of the London School of Economics, in an article entitled "Inquest on the Crisis," draws attention to what he calls "the leakage" of British capital, to which he ascribes the using up of over £600 million worth of British external assets since the end of March of this year, despite exchange restrictions. The following is the section of Prof. Robbins' article relating to this topic:

When we have explained the reasons for our failure to remedy our adverse balance on current account we have not, however, fully explained the catastrophe which has come upon us. For the using up of our external assets in the last few months has proceeded at a rate which cannot be reconciled with any known facts concerning our obligations on account of current purchases and current payments abroad. The statistics are indeed still veiled in some degree of mystery. But transactions which involved the using up of over £600 million worth of external assets since the end of March cannot conceivably have been limited to transactions on current account. A leakage of capital on a colossal scale is the only explanation which fits the facts. Since we have thus lost amounts which, on a conservative estimate, could have financed, for many months to come, the imports of food which we now may have to go without, some further inquiry seems essential.

In popular discussion, hitherto, the disposition seems to have been to put all the blame on convertibility and the obligations in the Loan Agreement under which the experiment in convertibility was carried out; and since the rate of withdrawal after July 15, when convertibility came into force, greatly exceeded the rate of withdrawal before then, it may well be that the arrangements which had been adopted in regard to that obligation must bear their due share of the blame. But to argue *simpliciter* that the convertibility obligation, by itself, was responsible for all that happened is completely to beg the question. For the obligation under the Loan Agreement, as under the Bretton Woods statutes, to maintain convertibility **was not an obligation to maintain unlimited convertibility. It was an obligation extending only to the current account.** Now it is just the excess of the withdrawals over and above current account obligations which constitutes the problem to be investigated. I myself believe that, having regard to the general deterioration in our position, in particular to the rate at which our adverse balance was running, it was a mistake to attempt to maintain even this limited degree of convertibility. The possibility of such a situation had been well provided for in the Loan Agreement. Clause 12 of the Loan Agreement says that "each government shall be entitled to approach the other for a reconsideration of any of the provisions of this agreement, if in its opinion the prevailing conditions of international exchange justify such reconsideration." I have little doubt that had this clause been invoked by the government it would have found a sympathetic hearing from the U. S. Administration. But that is not the central problem. The central problem, I repeat, is how did it come about that, being obliged only to maintain convertibility on current account, we found ourselves in a position in which we were losing capital?

Now, on the information which so far has been made publicly available, precise answers to this question are not possible. The Chancellor gave many figures to the House of Commons. But he did not furnish anything which permitted a complete and systematic view of the situation. Indeed, it is doubtful whether at the time he himself was in a position to do so. For, whereas on that occasion he expressed the confidence that the August position would be more favorable, it was not more than a few days before he was compelled to come to the microphone and declare that he had lost more than another $200 million. We are still, therefore, very much in the dark. For this reason, in what follows I prefer to ask what seem to me to be relevant questions, rather than to pronounce on the answers with certainty.

The first question relates to the sterling balances. Were these under a control adequate to prevent an undue withdrawal? It is well known that the existence of large sums of liquid capital accumulated in London as payment for goods or services delivered for the most part during the War, and nominally capable of being withdrawn at the will of their owners, has long presented problems of the utmost technical and moral difficulty. It would be possible to write a treatise on this subject alone. But one practical consideration has long been clear amid the welter of casuistical issues and special circumstances: namely, that it would be fatal to allow them to be withdrawn suddenly or at a very substantial annual rate. On that consideration, which depends for its validity on no begging of the question whether the balances ought eventually to be repaid in full or not, but on the inescapable facts and potentialities of our balance of payments, it might have been assumed that all responsible opinion was united. But in fact we have witnessed during the last 12 months, from the Argentine agreement onward, the signature of agreements of bewildering easiness in this respect, both as regards prospective rates of repayment and as regards the amount of the balances to be regarded as free in the periods immediately ahead. If the rates of repayment in some of these agreements were to have been generalized, it almost seemed as if we might easily have been involved in annuities three times the amount of the annuities on the American and Canadian loans. While if we add up the amounts to be regarded as free in the months immediately subsequent to the agreements, we reach totals which, if withdrawn in a lump, would certainly have made the most substantial inroads on our dollar resources. Of course, we do not know what unwritten understandings lay behind these agreements. We do not know, moreover, to what extent, in the event, such understandings, if they existed, were honored. But we are at least entitled to ask: as things have turned out, were these arrangements entirely satisfactory? Is there no reason to suppose that more drastic methods on our part, although doubtless galling to our pride and out of harmony with our traditions, would have better safeguarded our position and even the eventual security of our creditors?

But the accumulated balances of our wartime creditors were not the only funds which could leave London. There were very tight regulations on transfers to some parts of the world. It is not so certain that the regulations were so tight as regards transfers to others. It is therefore not unreasonable to seek further information regarding exchange control within the sterling area. Were the arrangements such as to preclude the transfer of funds to parts of this area where, perhaps, the peculiar conditions of trade or the lesser severity of the regulations made easier further transfers to parts of the world to which transfer from here was forbidden? Were they even such as to preclude transfers tending to increase the adverse balance on current account? It would restore confidence greatly if the government could give a complete affirmative to this question. For the common gossip of the market and the logic of the known methods of regulation have given many to question gravely whether in fact there may not have been serious leakages in these directions.

This leads to a further question relating to the efficiency of our exchange control — and here I must ask my readers to pardon me if I appear to diverge into technicalities; there is indeed an unavoidable appearance of technicality but the issues involved are of great practical importance. The convertibility obligation, as we have seen, was an obligation to maintain not total convertibility but only convertibility on current account. This means in plain English that the foreigner was entitled to turn into dollars, if he pleased, not his capital but his current earnings. Now the question arises, was such a system viable unless some precaution existed against the sudden withdrawal not of **net** current earnings but of **gross?** — a danger which was particularly great whilst there existed the simultaneous possibility of sudden prohibitions on purchases from this country. Is it not inherent in the idea of current account convertibility that it should be worked through a system of short-period clearings of net earnings either way, rather than by a system which allows the foreigner, regardless of his own debts, all of a sudden one fine morning to demand dollar payment of the gross amount of current debts owed to him. This certainly was the way in which it has been supposed by many that the difficult and delicate system of current account convertibility would be worked. And since the government allowed themselves to declare with such confidence that the arrangements made for meeting the obligation of July 15 were completely watertight, the possibility that other looser techniques might be adopted was not very widely discussed. Since so much money has been lost, we are entitled, I think, to inquire further concerning this question. We are entitled to ask whether there may not have been too great an inclination on the part of the government to rely on mere gentlemen's understandings concerning how the right of withdrawal should be exercised, when the situation was one of such peril that the chief danger was not that the gentlemen might be offended if they were not treated as gentlemen but that those who were not gentlemen might take advantage of the privilege if they were treated as if they were?

Where so much is so dark and confused, it is difficult to feel any confidence that even one's questions are posed with a proper degree of precision. It may well be that, in these inquiries, there are phrases which, for one reason or another, fail to probe the essential points. But one thing is reasonably clear, and in any discussion of these matters it is desirable to keep it firmly in mind. An intolerable deal of money has disappeared like snow overnight and it has not gone, as it was intended that it should go, in payment for necessary imports. I confess that I find it difficult to see how this could possibly have happened had there not been serious errors of high policy, at least of the kind, if not of the exact definition, of these I have mentioned. If this is not so it should be made clear. For confidence has been severely shaken.

Belgium's "Schachtian" Devices

By PAUL EINZIG

Commenting on the Anglo-Belgium Payments Agreement, Dr. Einzig accuses Belgium of acquiring sterling from third countries in order to require its convertibility. Says experience proves there is no real safety for Britain in agreeing to convertibility above a fixed limit.

LONDON, ENG.—When at the beginning of September a new Payments Agreement was concluded between Britain and Belgium, its terms were presented as an indication of the new system of convertibility which is to arise from the conclusion of a number of similar agreements. In substance, it amounted to the adoption of the principle that sterling is to become convertible if a country accumulates an amount in excess of the limit fixed in the agreements. In the case of Belgium the figure was fixed at £27,000,000. On the basis of the Anglo-Belgian trade figures this amount was considered in British official circles as more than sufficient to safeguard Britain against being called upon to part with any of her much-needed gold as a result of the working of the Payments Agreement with Belgium. And the Treasury was satisfied that, if only it succeeds in persuading foreign governments to agree to high "ceilings" for inconvertible sterling balances, the new formula of "convertibility without tears" would work satisfactorily. Criticisms on the ground that Belgium might easily devise means for accumulating sterling in excess of £27,000,000 in a brief space of time were dismissed in the same way as were dismissed two to three months earlier the warnings that convertibility would break down. And once more the critics have proved to be right even sooner than they themselves had expected.

Dr. Paul Einzig

Within four weeks from the conclusion of the new agreement, the Belgian sterling balances have already risen to the close vicinity of the inconvertible limit. This astonished the British authorities who did not reckon with the skill of the Belgian authorities in using and abusing the terms of the agreement. Yet London had every reason for being fully prepared for every kinds of "Schachtian" currency tricks on the part of Belgium. For during the period of convertibility Belgium proved to be easily the worst offender. The methods she applied for the purpose of securing sterling for the purpose of converting it into dollars would have put even Dr. Schacht to shame.

In the first place, Belgium acquired sterling from third countries, in payment for her export surpluses. This in itself was in accordance with the rules. But she did not go out of her way to ascertain whether the sterling she acquired was "old" or "new," and it is now known that a very large amount of old sterling balances has come to be converted through the intermediary of Belgium. Moreover, she has secured from Belgian holders large amounts of old and hitherto undeclared sterling. Belgian exporters who had retained in the form of sterling part of the proceeds of their exports in circumvention of the Belgian exchange regulations were induced before August 20 to surrender their illegal balances for the purpose of conversion into dollars. They were granted immunity from prosecution. A systematic campaign aiming at discrediting sterling had facilitated the task of the Belgian Government to collect sterling both from Belgian national and from foreign countries.

To some extent these devices continued to be applied also after the suspension of the convertibility of sterling. Until the new Payments Agreement became operative Belgium was entitled to accept sterling from third countries. And the sterling balances held by Belgians continue to be collected by the authorities, even though they may have originated before the period of convertibility.

Above all, there is reason to believe that Anglo-Belgian trade has been heavily manipulated in order to secure the largest possible sterling surplus. The figures are not yet available, but it seems that the Belgian Government has made every effort to increase exports to Britain, and at the same time it has reduced the purchases of British and Sterling Area goods as far as possible. An artificial export surplus has thus been created.

This experience has taught Britain a lesson. It showed that there could be no real safety in fixing the inconvertible limit at what is considered a very high figure, for even such a high limit might easily be reached. In any case, the fixing of high "ceilings" cuts both ways: it is usually based on the principle of reciprocity. When a country undertakes to hold inconvertible sterling to the amount of, say, £50,000,000, Britain has to undertake to hold an equivalent amount of inconvertible currency of the country concerned. This means that, while the fixing of a high "ceiling" tends to reduce the risk of losing gold through conversions, it increases the risk of having to make large unrequited exports which Britain can ill afford. Worst of all, Britain is liable to be victimized by the same country both ways. Suppose Belgium works up a temporary sterling surplus of, say, £40,000,000, by concentrating a year's exports within a few months, and by withholding at the same time the purchase of British goods. Britain would have to part with £13,000,000 of gold. As soon as this is done, there is nothing to prevent Belgium from reversing the process, and checking all exports to Britain while increasing imports of British and Sterling Area goods to the utmost limit of possibility. As a result the accumulated inconvertible sterling could be used up, and Britain would have to accumulate under the agreement a large amount of inconvertible Belgian francs.

A few months ago this would have sounded too Machiavellian to be considered seriously. On the basis of Britain's recent experience with Belgium, however, it cannot be dismissed as improbable. So the British authorities in their effort to satisfy the United States by making sterling at least partly convertible, are liable to expose themselves to being victimized by greedy and unscrupulous governments. Until now the opponents of convertibility maintained that it would be premature to return to it until Britain's trade conditions have become more or less normal. Now they have to add to this condition another: it is risky to return to convertibility so long as the present low standards of morality among governments do not improve.

Says Economists Expect Mild Business Recession Next Year

Dodge Survey reveals outlook on commodity prices, industrial production, employment and construction.

It is the consensus of opinion of one hundred economists polled by F. W. Dodge Corporation that there will be a mild business recession beginning next spring.

The group polled includes economists connected with business corporations, financial institutions, universities and economic research organizations.

In revealing results of the corporation's opinion survey on wholesale prices, industrial production, employment and construction, Thomas S. Holden, President of the fact-finding organization, said that 75 of the economists expected a business recession in 1948, that 21 did not expect a recession next year, and four did not express an opinion on the question.

Forty-one of the economists expecting a recession indicated they believed it would be mild, 19 described their expectation as "moderately serious," and 11 as "serious."

Mr. Holden revealed that there was a wide division of opinion as to when the expected recession would begin, with February and March most frequently mentioned.

Commodity Prices

In the opinion of most of the economists the index of wholesale commodity prices as established by the U. S. Bureau of Labor Statistics will continue to rise from 153.5 as of Aug. 23, 1947, through December, but will be down by August of next year and down further by the 1948 year-end. The median commodity index prediction figure in the opinion of the economists was 158 for December this year, 150 for August next year, and 140 for December, 1948.

The majority of economists expect a period of price stabilization when the wholesale commodity index will reach 132, the median opinion figure. This would be at a point approximately 70% above the average of wholesale commodity prices for the year 1939. While there is a wide diversity of opinion as to when the period of stabilization should begin, ranging all the way from the present time to some time in 1951, the most frequently mentioned time is the spring of 1949.

Industrial Production

The majority believe that industrial production will remain stable or decline from the 1947 level during next year, 64 anticipating an over-all decline in production with the median decline shown as 10%.

Seventy-seven of the 100 economists expressed an opinion on industrial production with 36 foreseeing "approximately stable" production next year, 27 others believing the trend would be steadily downward and 14 saying it would be steadily upward in 1948 from the 1947 level.

The majority foresee an upward trend in industrial production in the first quarter and a decline in the last three quarters of next year as compared with this year.

Employment

Majority opinion indicates an expectation of approximately stable to lower employment in 1948 as compared with this year. Of 78 economists expressing an opinion on the employment outlook only three expect a steady uptrend, while 30 expect a steady downtrend, and 45 believe that employment will be approximately stable next year.

Construction

Despite the mild business recession expected, there is strong support for the view that the dollar volume of construction contracts will be greater next year than this year.

Seventy-six economists expressed an opinion on the construction outlook. Thirty-seven anticipate a steady uptrend, 28 believe building will be approximately stable, and 11 expect a steady downtrend. Fifty-eight believe there will be an over-all increase in construction contract volume, the median figure on the increase expectation being 10%.

The following economists participated in the survey:

Adolph G. Abramson, S. K. F. Industries, Inc., Philadelphia; Eugene E. Agger, Rutgers University, New Brunswick, N. J.; E. B. Alderfer, Economist, Federal Reserve Bank of Philadelphia; R. S. Alexander, Columbia University, New York; Harold E. Aul, New York; Jules Backman, Associate Professor of Economics, New York University; Robert W. Bailey, Market Analyst, Evanston, Illinois; C. Canby Balderston, University of Pennsylvania; Horace R. Barnes, Franklin & Marshall College, Lancaster, Pa.; Claude L. Benner, Continental American Life Insurance Co., Wilmington, Delaware.

E. G. Bennion, Standard Oil Company of New Jersey, New York; William Arthur Berridge, Economist, Metropolitan Life Insurance Co., New York; Jacob J. Blair, Pittsburgh; Chelcie C. Bosland, Department of Economics, Brown University, Providence, R. I.; Courtney C. Brown, Standard Oil Company of New Jersey, New York; Robert F. Bryan, Lionel D. Edie & Co., Inc., New York; Irvin Bussing, New York; J. G. Campbell, Shell Oil Company, Inc., New York; Neil Carothers, Lehigh University, Bethlehem, Pa.; Cecil C. Carpenter, University of Kentucky, Lexington.

William A. Carter, Norwich, Vt.; Delmas R. Cawthorne, Miami University, Oxford, Ohio; Miles L. Colean, Washington, D. C.; Hartley W. Cross, Connecticut College, New London, Conn.; D. H. Davenport, Director, New York State Department of Commerce, Albany; Herman J. deFord, Chicago; Walter H Delaplane, St. Lawrence University, Canton, N. Y.; Wendell M. Dennis, Manager, Economic Division, American Cyanimid Company, New York; Charles A. Dice, Professor of Business Organization, Ohio State University, Columbus; Henry P. Dutton, Chicago.

Elvin F. Donaldson, Ohio State University, Columbus; Wilford J. Eiteman, University of Michigan, Ann Arbor; Morris D. Forkosch, New York; Stephen M. Foster, Economic Advisor, New York Life Insurance Company, New York; Roy L. Garis, Professor of Economics, University of Southern California, Los Angeles; Russell Gartley, Glen Ellyn, Ill.; Edwin B. George, Economist, Dun & Bradstreet, New York; Horace N. Gilbert, California Institute of Technology, Pasadena; John D. Gill, Atlantic Refining Company, Philadelphia; Charles A. Glover, American Telephone & Telegraph Company, New York; Clare Emler Griffin, Professor of Business Economics, University of Michigan, Ann Arbor.

Paul E. Haney, Economist, Sheridan, Farwell & Morrison, Inc., Chicago; Charles O. Hardy, Chicago Association of Commerce, Chicago; Hudson B. Hastings, Professor of Economics, Yale University; Albert Haring, Servel, Inc., Evansville, Indiana; Walter E. Hoadley, Jr., Business Economist, Federal Reserve Bank of Chicago; Walter Hollowell, Cost Analyst, Denver, Colorado; Louis Hough, University of Pittsburgh; Stanley B. Hunt, Textile Economics Bureau, Inc., New York; Kenneth V. James, Kansas City, Kansas; Dr. Donald L. Kemmerer, Associate Professor of American Economic History, University of Illinois, Champaign, Ill.

Fred I. Kent, New York; Oswald W. Knauth, Beaufort, S. C.; Richard L. Kozelka, Professor of Economics, University of Minnesota, Minneapolis; H. E. Kromayer, Economist, American Maize Products Co., New York; Dean Langmuir, New York; J. L. Leonard, Head, Economics Department, University of Southern California, Los Angeles; William T. Livingston, Economist, Alexander Hamilton Institute, New York; Merten J. Mandeville, University of Illinois, Urbana; Stewart M. Marshall, Palo Alto, Calif.; Edward S. Mason, Dean, School of Public Administration, Cambridge, Mass.

A. Wilfred May, Executive Editor, Commercial and Financial Chronicle, New York; James E. McCarthy, Dean, College of Commerce, University of Notre Dame, Notre Dame, Indiana; Roy W. McDonald, New York; Oswald E. D. Merkt, The Pennsylvania Company for Banking and Trusts, Philadelphia; Dwight Michener, Associate Director of Research, The Chase National Bank, New York; Ragnar D. Naess, Naess & Cummings, New York; Frank D. Newbury, Westinghouse Electric Manufacturing Corp., Pittsburgh; Paul H. Nystrom, Professor of Marketing, Columbia University, New York; Arden B. Olsen, Head of the Department of Economics, University of Denver; Elmore Peterson, University of Colorado, Boulder, Colorado.

J. E. Pogue, Vice-President, The Chase National Bank, New York; F. E. Richter, Economist, General Foods Corp., New York; Robert G. Rodkey, University of Michigan, Ann Arbor; John G. Rolph, New York; John H. Sadler, Secretary, The Kroger Co., Cincinnati, Ohio; Olin Glen Saxon, Yale University, New Haven, Conn.; Lloyd L. Shaulis, Economist, General Aniline and Film Corp., New York; Murray Shields, Vice-President, Bank of the Manhattan Co., New York; Nathan L. Silverstein, Indiana University, Bloomington; George E. Soule, New York.

John R. Stockton, Professor of Business Statistics, University of Texas, Austin; N. I. Stone, New York; W. Bayard Taylor, University of Wisconsin, Madison; Charles S. Tipptets, Headmaster, Mercersburg Academy, Mercersburg, Pa.; Rufus S. Tucker, General Motors Corp., New York; Q. Forrest Walker, Economist, R. H. Macy & Co., Inc., New York; William E. Warrington, Philadelphia; J. Philip Wernette, President, University of New Mexico, Albuquerque; Ray Bert Westerfield, Professor of Economics, Yale University, New Haven, Conn.; Nathaniel R. Whitney, Economist, The Proctor & Gamble Co., Cincinnati, Ohio.

Edward F. Willett, Associate Professor of Economics, Smith College, Northampton, Mass.; John B. Williams, Wellesley Hills, Mass.; Max Winkler, New York; A. W. Zelomek, President, International Statistical Bureau Inc., New York; and five economists who requested that their names be withheld.

First Woman Member Of Junior Inv. Bankers

Ellen Van Deusen, 21-year-old Wellesley College graduate from Boonton, N. J., this week was

Ellen Van Deusen

elected the first woman member of the Junior Investment Bankers and Brokers Association. Blonde Miss Van Deusen, who entered the investment banking field last summer through an 18-month training course at Smith, Barney & Co., investment bankers, prefers ticker tape to a trousseau at present. Winner, earlier this year, of the famous Wellesley College hoop race—and thus by tradition expected to be the first in her class to marry—Miss Van Deusen is out to prove a girl can make her way in the investment banking business.

Tretter Concludes Housing Lectures at Columbia University

Maxwell H. Tretter, lawyer and Housing Consultant, and formerly Executive Director of the New York City Housing Authority, concluded on Oct. 29 a series of two lectures on public housing at the Columbia University School of Architecture. The first lecture covered the general aspects of the field of public housing with particular emphasis upon the program in New York City. The second lecture on Oct. 29 dealt with the Housing Authority program and administration. The lectures were for advanced students only in the Planning and Housing Division of the School of Architecture.

Adrien Roy With Buckley Brothers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Adrien V. Roy has become associated with Buckley Brothers, 530 West Sixth Street, members of the New York Stock Exchange. In the past he was an officer of Fox, Castera & Co. and its predecessors.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

The sixth annual dinner of the Quarter Century Club of the **Bank of the Manhattan Company of New York** was held at the Waldorf-Astoria Hotel on Oct. 16. Of the 241 members who attended 33 had completed their 25 years of service with the bank during the past year. Louis Waechter, President of the Club, presided. F. Abbot Goodhue, President of the bank, presented membership certificates and gold badges to the new members. J. Stewart Baker, Chairman, presented additional awards to the members celebrating their 30th, 35th, 40th, and 45th anniversaries. Geo. C. Bisset, Jr., who has just completed 25 years with the bank, spoke for the new members; F. Peter Goelz for the 30 year members; William J. Plant for the 35 year members; William H. Maeder for the 40 year members; and Ellis Weston for the 45 year members. Cyrus E. DeHondt, of the Bank's Main Office, was elected President for the coming year.

* * *

The **National City Bank of New York** announces the opening of a branch at Clark Field, the Philippines. The principal function of the Clark Field Branch will be to accomodate the accounts of United States Army Finance Officers, but the branch facilities also will be available for the convenience of officers, enlisted personnel and civilian employees of the War Department. From the bank's announcement we also quote:

"Under the terms of the United States-Philippines Bases Agreement, jointly agreed to last March by the United States and Philippine Governments, U. S. Army installations are being moved from the Manila area to Clark Field, approximately 56 miles north of the city. Clark Field is now the principal U. S. Army base in the Philippines. The banking facilities and services heretofore available to the Army through National City's Manila branch are henceforth to be supplied through the Clark Field Office. The Bank's Philippine branches at Manila and Cebu will continue to handle regular commercial business transactions as heretofore."

* * *

James T. Lee, President of the **Central Savings Bank of New York,** announces that at a meeting of the Board of Trustees the following promotions were approved: Kermit P. Helgerson was appointed Real Estate Officer and Raymond W. Gross, Mortgage Officer. Mr. Helgerson, a native New Yorker and active in real estate management work for many years, joined the bank as Real Estate Inspector in 1936 and has been manager of its Real Estate and Appraisal Divisions since 1945. He is a member of the Appraisal Institute. Mr. Gross, after long association with Realty Associates Management, Inc., joined the bank as Mortgage Supervisor in 1935.

* * *

A Time Saving Depository has been installed in the **Union Dime Savings Bank of New York,** located at Avenue of the Americas at 40th Street, according to William L. DeBost, President of the bank, who announces that this new service is now available. Mr. DeBost points out that a depositor may now use the Time Saving Depository to make a deposit, withdrawal, or to open an account. His bankbook will be mailed to him the next day.

"We anticipate," says Mr. DeBost, "that this will be used extensively by depositors in the neighborhood of the bank and will become as popular as our Thursday hours, when we remain open to 6:30 p.m."

* * *

John E. Bierwirth, President of **The New York Trust Company of New York** announced on Oct. 28 the promotion of John E. Cookman from Assistant Treasurer to Assistant Vice-President.

* * *

Changes in regulations governing interest payments on compound interest deposits were announced on Oct. 28 by the **Chase National Bank of New York.** Effective Nov. 1, interest will be compounded monthly, instead of quarterly as heretofore, at the rate of 1% on balances from \$5 to \$2,500 and at ¼ of 1% on balances from \$2,501 to \$25,000. Previously the bank had paid interest at the rate of 1% on balances from \$50 to \$2,500, ¼ of 1% on balances from \$2,501 to \$10,000, and ⅛ of 1% on balances from \$10,001 to \$15,000.

* * *

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York,** announces the election of Wilbur F. Crook to membership of the Advisory Board of the Fifth Avenue at 29th Street Office of the Bank. Mr. Crook, former senior Vice-President, reached retirement age last August after 49 years' service with the bank. He also had held the title of Branch Supervisor and was responsible for the development of the bank's branch system, of which the office at Fifth Avenue and 29th Street was the first unit.

* * *

Raymond J. O'Rourke has been elected Assistant Vice-President of the **Lafayette National Bank of Brooklyn,** according to an announcement Oct. 15 by Walter Jeffreys Carlin, President. Mr. O'Rourke became associated with the bank in March of 1947 and is in charge of the Personal Credit Department. He came to the Lafayette from the Corn Exchange National Bank and Trust Co. of Philadelphia, where he was Manager of the Time Sales Department and also active in its organization. He was also formerly Manager of Consumer Credit and Time Sales Department of Rutherford National Bank, Rutherford, N. J. Mr. O'Rourke is a former President of the Philadelphia Retail Credit Managers Association, a member of National Federation of Sales Executives and a number of other clubs and organizations.

* * *

Announcement is made that the resources of **The Dime Savings Bank of Brooklyn** have passed the half-a-billion-dollar mark. The claim is made that "The Dime" is the largest savings bank in Brooklyn and Long Island, the third largest in New York State, and the fourth largest savings bank in the United States. George C. Johnson, President of the bank, in a statement issued in the matter stating that "the resources of the Dime Savings Bank of Brooklyn have reached one-half billion dollars," also says in part "it is our depositors who have built this large accumulation of wealth. They have numbered more than a million and a half since the founding of the bank in 1859. Within that period their gross deposits in our bank have totaled more than \$2,000,000,000 on which they have received over \$160,000,000 in interest dividends.

"'The Dime' now pays 2% interest to its depositors—it has never paid less—and interest is paid from the day of deposit. De-

positors now total more than 274,-000.

"Recently 'The Dime' has set up a Mortgage Consultant Department with nine specially trained mortgage consultants to give a broader and more helpful service to home loan borrowers."

* * *

Trustees of the **Buffalo Savings Bank of Buffalo, N. Y.,** on Oct. 14 elected William S. Rogers as President to succeed Myron S. Short, who has resigned. Mr. Rogers has been Executive Vice-President, said the Buffalo "Evening News," which reports that Mr. Short who retires because of ill health, was forced to take an extended leave during the summer after a break in his health. He will continue as a trustee of the bank. The "Evening News" of Oct. 15 also said:

"Mr. Rogers has been a trustee since 1927. He became Manager of the Bond Department in 1934. He was elected Vice-President in 1939 and Executive Vice-President in 1944.

"Mr. Short has been President of the bank since December, 1944. For three years he was President of the Savings Bank Association of the State of New York. He now is a director of the Savings Bank Trust Co. and the Institutional Securities Corp.

* * *

The Northern New York Trust Company of Watertown, N. Y., a State member of the Federal Reserve System has absorbed **The Copenhagen National Bank of Copenhagen, N. Y.,** effective Oct. 14. The Federal Reserve Board reports that in connection with the absorption a branch was established at Copenhagen.

* * *

The Essex Trust Company of Lynn, Mass., announced on Oct. 20 the election of Mr. Thomas D. Chatfield as Vice-President and Treasurer of the Company.

* * *

J. Wolcott Brown until last June a Vice-President of **National State Bank of Newark,** has been elected President of **Manasquan National Bank, of Manasquan, N. J.** The Newark "Evening News" of Oct. 19 from which we take the foregoing, added:

"Before joining National State, Mr. Brown had been with Manasquan National, advancing from teller to Vice-President and director. While with National State he retained his Manasquan posts. Upon the death of John Hulsart he was elected President."

* * *

Thomas G. Walker, General Counsel of the New Jersey Bell Telephone Co., on Oct. 16 was elected a director of **National Newark & Essex Banking Co. of Newark, N. J.,** according to an announcement by Robert G. Cowan, President of the bank. Mr. Walker is also a director of Prudential Insurance Co., the Newark "Evening News" states.

* * *

The **Phillipsburg National Bank and Trust Co. of Phillipsburg, N. J.,** announces that James P. Wallace has been elected President and Trust Officer.

* * *

In making known that the **Mellon National Bank & Trust Co. of Pittsburgh, Pa.** will establish a branch in Braddock, Pa., the Pittsburgh "Post Gazette" of Oct. 8 stated:

"The Braddock National Bank, a member of the Mellbank Corp. group, will become the Braddock office of the **Mellon National,** subject to approval of the stockholders of the Braddock National." The paper from which we quote likewise said:

"The change is expected to take place early in November.

"The Braddock National was founded in 1882 with a capital of $60,000. It now has capital and surplus of $1,500,000, with total assets of more than $23,000,000."

In its Oct. 17 issue the same paper stated that the **Wilkinsburg Bank of Wilkinsburg, Pa.,** will also become a branch of the Mellon National Bank & Trust Co. about the middle of November. The Wilkinsburg Bank was founded in 1896 with a capital of $50,-000. Its total assets now exceed $16,000,000.

William E. Howard is President of the Braddock National, while William G. Marshall is President of the Wilkinsburg Bank.

* * *

Charles S. Weston, who had served both as President and Chairman of the Board of the **First National Bank of Scranton, Pa.,** died on Oct. 14 at the age of 87 years. Mr. Weston who had been President of the bank for more than 23 years, retired from that post in 1936 to become Chairman, from which office he retired in 1941.

* * *

Dr. Paul De Leon Sanders, Editor of the "Southern Planter," and member of the board of directors of **The Bank of Virginia, at Richmond, Va.,** was awarded the honorary degree of Doctor of Science by the University of Maryland on the occasion of the Fall Convocation of the University on Oct. 16. Dr. Sanders received his education in agriculture and science at Mississippi State College, University of Maryland and Harvard University. He served as Extension Entomologist for the U. S. Department of Agriculture, covering all the South and Southwestern States. He was cited by President Byrd as having a comprehensive and sympathetic understanding of farm problems and farmer aspirations, as being a forceful editor of a progressive agricultural periodical and a staunch supporter of the policies and programs for the improvement of Maryland's diverse agriculture. Gen. Alexander A. Vandergrift, Commandant, U. S. Marine Corp.—the principal speaker at the Convocation—was awarded the degree of Doctor of Laws.

* * *

On Oct. 15 Thomas W. Evans joined the Bond Department of the **Continental Illinois National Bank and Trust Co. of Chicago.** Mr. Evans will become Manager of the Municipal Bond Department, succeeding John W. Denison, Second Vice-President. Mr. Evans' entire business career has been with Halsey, Stuart & Co., which firm he joined upon graduation from Earlham College in 1925. He has served in sales capacities on the Pacific Coast and in Chicago. For the past 10 years he has been a member of the Municipal Department in the Chicago office, and principally concerned with the underwriting and syndicating phases of the business.

* * *

The National Bank of Detroit, Detroit, Mich.

	Oct. 6, 1947	June 30, 1947
	$	$
Total resources	1,150,852,057	1,166,381,355
Deposits	1,076,373,179	1,102,221,168
Cash & due from banks	259,825,530	293,188,533
U. S. Govt. security holdings	611,311,424	597,683,969
Loans & bills discounted	171,136,978	169,775,299
Undivided profits	4,839,070	5,140,648

* * *

Directors of **Marshall & Ilsley Bank of Milwaukee, Wis.,** on Oct. 14 declared a 25% common stock dividend, payable Dec. 26 to stock of record Dec. 19, and also declared the regular quarterly 50-cent preferred dividend, payable Nov. 1 to stock of record Oct. 23. The Milwaukee "Journal," from which the foregoing is taken, states that the common dividend is subject to a stockholders' meeting, at a later date, to approve increasing the common stock from $2,000,000 to $2,500,000.

* * *

Jay E. Markle has retired from active management of the **Bank of Commerce and Savings of Duluth, Minn.** and Oscar A. Schultz has been elected to succeed him as President. Mr. Markle, according to Associated Press advices from Duluth to the Minneapolis "Star" of Oct. 19, who has been President since 1932, will remain on the board of directors. Mr. Schultz entered the bank last August as Executive Vice-President after serving for 14 years as President of the **First National Bank of Moose Lake,** and about 18 months as Vice-President of the **Marquette National Bank of Minneapolis.**

* * *

On Nov. 10, Kansas City, Mo. will have a new bank, the **Grand Avenue Bank of Kansas City;** it will occupy the six-story modern building at 18th and Grand which on that day will be vacated by **City National Bank and Trust Company** in its move to its new home at 10th and Grand. Grand Avenue Bank will have an initial capitalization of $625,-000, consisting of $250,000 in capital and $250,000 in paid-up surplus and $125,000 in paid-up undivided profits. The President of the new bank will be R. V. Aycock, President of the Vaughn Investment Company and for the last 25 years a director of **City National Bank and Trust Company of Kansas City.** The Vice-President, will be John C. House, now an Assistant Cashier of City National and the Cashier will be M. H. Ely, now of City National. The remainder of the staff will be built around present employees of City National. Directors of the new bank will be, besides Mr. Aycock: George C. Kopp, a City National Vice-President and Director; W. O. Norman, President, City Bond and Mortgage Company; M. Karl Goetz, Vice President of the M. K. Goetz Brewing Company; Charles Tucker, President of Charles Tucker Furniture Stores; Charles E. Whittaker, member of the law firm of Watson, Ess, Barnett, Whittaker and Marshall.

* * *

To mark its 100th anniversary of the **Boatmen's National Bank of St. Louis, Mo.,** has published a history outlining factors in the first century of its existence.

In a foreword in the publication it is stated that "in all of the vast territory west of the Mississippi River no bank which started operation before Oct. 18, 1847, has survived the intervening period. On that day the **Boatmen's Savings Institution** began business. On Oct. 18, 1947, it is still active and is a more influential force in National banking than it has ever been before. It has survived robbery and fire, depression and war. Its growth has been entirely internal; there has been no accretion of resources by consolidation."

George Knight Budd was the guiding spirit in the bank's early development. Detailing the various steps taken through the years it is recorded that on April 9, 1926, the bank accepted its fifth charter under the name of "The Boatmen's National Bank of St. Louis. On June 1, 1929, Tom K. Smith became President of the bank and continued in that capacity until January, 1947, when he was elected Chairman of the board. To succeed Mr. Smith, the board elected Harold T. Jolley as its seventh President. He had come into the bank in 1929 as Vice-President in charge of public relations.

The story of the bank's development in the publication just issued is by W. G. Rule, Vice-President of the bank. Designated as the "Oldest Bank West of the Mississippi" the institution in its statement of condition Oct. 6, 1947, reports total resources of $138,-095,033; deposits of $128,643,292; capital stock, common, of $3,000,-000; surplus, $3,000,000, and undivided profits of $336,072.

* * *

William S. Walton, prominent Oregon banker, has been elected a director of the **United States National Bank of Portland, Ore.** Announcement was made by E. C. Sammons, President. Mr. Walton is a director and shareholder in many important Oregon corporations. Among other activities he has assisted in establishing pulp and paper mills in the Northwest. Since 1938, Mr. Walton has been a member of the Advisory Committee of the Portland loan agency of the Reconstruction Finance Corporation. Following World War I, he served as a member of the Advisory Board of the U. S. War Finance Corporation. Mr. Walton began his banking career in 1899 with Ladd & Bush Bank in Salem, Ore. He was a director of that pioneer Pacific Coast organization when it was purchased by the United States National Bank in 1940. At that time he became a Vice-President of the Portland bank.

* * *

The **Citizens & Southern National Bank of Atlanta, Ga.** will offer for sale to its present stockholders, 100,000 shares of new stock on Jan. 2, next to increase capital funds of the bank by $1,-500,000. This is learned from the Atlanta "Constitution" of Oct. 15, which likewise said:

"This was decided at a special meeting of stockholders in Savannah Tuesday [Oct. 14]. The new stock, $10 par value, will sell at $15 a share. One million dollars will be added to the capital and $500,000 to surplus. Stockholders also authorized transfer of $500,-000 from undivided profits account to the surplus account of the bank. When the new stock has been sold and the transfer made the bank's capital will be $6,000,-000 and surplus $6,000,000."

* * *

Charlie L. Childers, affiliated with the **Federal Reserve Bank of Dallas, Texas** since 1917, was named on Oct. 15 an Assistant Vice-President of the **National City Bank of Dallas,** and six members of the National City staff were promoted to positions of greater responsibility. The action was taken at the regular monthly meeting of the bank's board of directors, it was stated in the "Daily Times Herald" of Dallas, which in part also said:

"Mr. Childers, who will assume his new position Oct. 27, will devote himself exclusively to duties in the correspondent bank division, according to DeWitt Ray, President of the **National City Bank.**

"In addition to Mr. Childers' appointment, Mr. Ray announced the following promotions and changes in titles:

"William R. Hoge, Vice-President, elected a director and Secretary of the Board; Phillip Reid, Vice-President and Cashier, named Vice-President and member of the board of directors; Allen E. McMurray, Assistant Vice-President, promoted to Cashier; Arch T. Harris, Assistant Vice-President, elected Vice-President and member of the discount committee; T. W. Rutledge, Assistant Vice-President, elected Vice-President; Ray Jones, Administrative Assistant to J. S. Pulliam, Vice-President in charge of the real estate mortgage loan department, elected Assistant Cashier.

"All the promotions are effective immediately."

* * *

In a joint announcement issued at Amsterdam, Netherlands, by the **Amsterdamsche Bank N. V. of Amsterdam** and the **Incasso-Bank N. V. of Amsterdam,** it is stated that the institutions, subject to the approval of their respective stockholders, have "decided to enter into an agreement which as from Jan. 1, next, will lead to a close cooperation of our institutions." "Each institution," it is indicated, "will continue their banking activities to the full extent, thereby leaving the intercourse with their respective foreign relations unimpaired." It is added that "the fact that within a not too distant future the **Amsterdamsche Bank N. V.** will presumably hold practically all of the shares of the **Incasso-Bank N. V.** will not have any influence on the management of the latter." The agreement in part proposes:

"The Amsterdamsche Bank N. V. will increase its subscribed capital by fls. 15.000.000.—and consequently issue 75.000 shares of fls. 200—each, to be divided in so far as necessary into subshares of fls. 100—each, all of which shares will participate in the profit as from Jan. 1, 1948.

"The Amsterdamsche Bank N. V. places these newly issued shares at the disposal of the Incasso-Bank N. V. not later than a fortnight after this agreement becomes effective, at the price of 100%; the Incasso-Bank N. V. undertakes to acquire these shares at this price from the Amsterdamsche Bank N. V.

"The Incasso-Bank N. V. undertakes to reduce its subscribed capital from fls. 30.000.000 — to fls. 15.000.000 — by stamping off the face value of the shares to fls. 500—and that of the subshares to fls. 250. The Incasso-Bank N. V. will hand to the holders of its shares, as same are stamped off, shares resp. subshares of the Amsterdamsche Bank N. V. up to the nominal amount stamped off.

"As far as this amount cannot be covered in shares resp. subshares of the Amsterdamsche Bank N. V. the Incasso-Bank N. V. will provide for the failing amount by issuing scrips, two of which entitle the holder to one subshare of the Amsterdamsche Bank N. V."

Bank Loans and Discounts Up $2,798,860,000

Holdings of Government Securities Decline

Bank loans and discounts in United States banks increased $2,798,860,000 during the first six months of 1947 to an aggregate of $38,948,957,000, according to the final 1947 edition of the Rand McNally Bankers Directory (The Blue Book), now off the press, which presents a consolidated capitalization statement for all the country's banks as of June 30, 1947. A review of this edition of the Directory further reveals:

Bank holdings of U. S. Government securities show a decline of $3,933,555,000 while other securities register a gain of $553,519,000.

"Cash and exchange" due from banks decreased $1,550,100,000 and "other resources" declined $3,-299,000. The total resources of all the banks in the country on June 30, 1947, were $168,359,335,000, a reduction of $2,131,575,000.

A decline of $2,464,504,000 during the six-month period lowered total bank "deposits" to $155,-340,250,000 as "other liabilities" dropped $7,261,000 to a level of $980,762,000.

Gains of $36,633,000 in "capital"; $186,789,000 in "surplus" and $116,768,000 in "undivided profits and reserves" were recorded. Addition of these three items reveals a cumulative growth of $340,190,000 in total capital funds, bringing the June 30, 1947, total to $12,038,323,000.

There are now 19,228 banking offices in the United States, of which 5,018 are national banks; 9,598 are State banks and trust companies; 133 are private banks and 97 are other banking institutions, making a total of 14,846 head banking offices. National banks have 1,851 branches; State banks and trust companies, 2,451; private banks, 5; and other banking institutions, 75; or a total of 4,382 branch banking offices.

Domestic Credit Problems and International Financial Policy

(Continued from page 2)

thought impossible both at home and abroad.

As a result, however, we entered the postwar period with a money supply that was abnormally high in relation to civilian output. Millions of individuals and families as well as business generally had large accumulations of liquid assets available for spending as soon as wartime restrictions were abolished.

Upon the end of hostilities, the reconversion of industry from the production of armaments to the production of civilian goods was accomplished with less delay and with a smaller degree of friction than even the most optimistic observers expected. The contraction of the earnings of war-workers did not result in a reduction in total demand for civilian goods as many had predicted. The accumulation of liquid savings enabled or encouraged the general public to maintain expenditures at relatively high levels.

At the same time, the backlog of demand for civilian goods, especially durable items, proved to be an effective substitute for the wartime demand for armaments. Industrial production remained high and unemployment remained low. In fact, after a very short recession we entered a period of boom unprecedented in our peacetime history. Our national output and our national income today are larger that at any time before the war, not only in money value but in physical volume as well.

The fact that our policies were successful both during the war and during the immediate postwar transition does not mean that we can afford complacency now. Our national output and our national income, although still at record levels, have ceased to grow in real terms and continue to rise only in money value. This condition is the essence of inflation, and if long continued can have disastrous consequences.

Inflation destroys the position of those classes that have to rely on fixed money incomes. It destroys the purchasing power of accumulated savings in liquid or fixed income securities. Lastly, it misdirects the use of our resources. Profits are being made by withholding commodities from the market and by using liquid resources for speculation rather than for production. Inflation leads ultimately to a decrease rather than to an increase in production and employment.

International Causes of Inflation

While the inflationary situation is primarily of domestic origin, our international economic activity contributes in two ways to the inflationary pressure: first, by diverting part of our supplies of goods and services to foreign consumers, and second, by increasing our volume of money.

In the first half of this year, we exported to foreign countries goods and services valued at about $10 billion, and imported goods and services valued at only $4 billion. This means that we gave to foreign countries goods and services valued at nearly $6 billion without receiving countervalues in kind.

We must deduct from that sum, however, the value of goods transferred to foreign consumers that already were located outside of the United States, mainly because they were shipped abroad during the war to our armed forces. In many cases it would have been uneconomical to ship these goods back to the United States, and thus their transfer to foreign consumers, either as relief or by sale on credit, can not properly be regarded as a drain upon our economy. Deducting these amounts, there remains a sum of $5½ billion by which goods and services available to our domestic economy were smaller than they would have been without our export surplus.

That sum represents less than one-twentieth of our total national product of $112 billion during the first half of 1947. The drain upon our resources, however, was concentrated upon a small group of commodities in relatively short supply. Thus, the drain was more inflationary than the proportion might indicate.

Our foodstuff exports, exceeding $1 billion, for instance, certainly contributed substantially to the rise in food prices, which played the most spectacular role in inflationary developments of recent months. To a smaller extent, the scarcity of steel and machinery also has been intensified by our exports.

The methods used for financing our export surplus added in part to our inflationary trend. Less than $1 billion was covered in a relatively non-inflationary manner, namely by private relief and by private non-bank credits.

This leaves an amount of more than $4½ billion that was financed with inflationary effects. Net government expenditures for foreign relief (excluding the transfer of goods located abroad but including expenditures for UNRRA and civilian supplies for occupied countries) exceeded $500 million and government credits to foreign countries (excluding credits for surplus property located abroad) exceeded $2 billion. If the government had not been compelled to make these expenditures, our budget surplus would have been correspondingly larger and its anti-inflationary effect would have been correspondingly greater, especially if used to retire public debt.

The credits included disbursements under the British loan agreement, advances by the Export-Import Bank, and smaller amounts of other loans, especially those made by the International Bank for Reconstruction and Development and the International Monetary Fund. These last two institutions are not U. S. Government agencies, but their first dollar advances came out of the initial payments made by our government and had essentially the same effects as loans by our government.

Another billion dollars of our export surplus was financed by the liquidation of foreign gold holdings. The inflow of gold, by adding to the reserves of our banking system, offset in part the anti-inflationary effects of the Treasury's debt retirement program. The final billion dollars of the trade balance was covered by the liquidation of foreign dollar balances and investments. The sale of foreign holdings of American securities and other productive assets might have been non-inflationary if it had resulted merely in the transfer of purchasing power from domestic to foreign interests. Unfortunately, however, the bulk of the amount represented a decline in foreign-held bank balances. This shift in the ownership of bank deposits was inflationary because it corresponded to a change from relatively idle to relatively active accounts and thus increased the activity or velocity of money.

The greater part of our export surplus accrued against Europe. Detailed statistics are available only for merchandise trade. The surplus of merchandise exports with Europe amounted to 55% of the total. Since most of our non-commercial exports went to Germany, Europe's share in our entire export surplus was even larger than that.

Combating Inflation by Economic Isolationism

In view of the inflationary influence exercised by our export surplus, as well as by our government expenditures and credit transactions which must be used for financing that surplus, it would seem easy to combat inflation simply by cutting off our help to foreign countries. The effect on our domestic price situation would be immediate. The long-run consequences, however, would be far more important than any immediate effect.

Foreign countries are importing from our economy more than they can sell to us. This import surplus is not for the purpose of obtaining unjustifiably high standards of living or promoting questionable projects of welfare or expansion. On the contrary, it is essential for maintaining consumption at subsistence levels and repairing their worst war damage in order to increase production for world recovery.

The recently released **report** of the Committee of European Economic Cooperation, which was constituted by 16 European countries in response to the historic appeal of Secretary of State Marshall, gives an appalling picture of the distress brought about by the war and its aftermath.

In 1946-47, the countries participating in this Committee, together with Western Germany, produced only 28 million metric tons of bread grains or some six million metric tons less than in prewar years. **The production of other basic foodstuffs declined by similar or larger percentages. This drop, aggravated by the natural increase in population, resulted in a catastrophic decline in per capita consumption. Despite large-scale imports, consumption of bread fell by one-sixth, of meat by more than one-third, and of fats by nearly one-half.**

These figures clearly show that famine still threatens Europe; malnutrition is hampering the efficiency of Europe's labor; and dearth of human energy is obstructing Europe's industrial recovery.

Between 1938 and **1947**, coal output in the countries represented in the Committee of European Economic Cooperation, together with Western Germany, declined by one-fifth and crude steel output by one-half. Scarcity of coal and steel are also restricting the production of all finished industrial goods.

Since Europe is seriously lacking in foodstuffs, coal, and steel despite the substantial American exports of these commodities, its economy would break down completely if we abolished our export surplus. The consequence of such a breakdown would be calamitous for the United States on moral, political, and economic grounds.

The moral aspect of the problem seems remote from consideration of financial policy. Actually, however, it can be shown that in the long run a policy without moral basis is bound to fail. There is much misery in the world that we are unable to combat. It is in our power, however, with little exertion to prevent the misery in Western Europe from continuing and spreading. If we failed in this task, we could never again occupy a place of political and economic leadership in the world, to which we are both entitled and compelled by our political and economic power.

Politically the economic breakdown of Western Europe would intensify domestic and international conflicts. Those Central and Eastern European countries that refrained, at least for the time being, from participating in European economic cooperation would realize that their unwilling decision was justified. One result, therefore, would be even less hope than now of a united world. Moreover, the Western European countries would have to look to the East for whatever support they might be able to receive in order to avoid wholesale starvation. This support might be contingent on a fundamental change in the domestic and international politics of Europe.

This situation in turn would make it necessary for us to increase our preparations for possible armed conflict. Instead of advancing grants and credits to friendly foreign countries, we would have to spend equal and probably greater amounts for additional armaments to defend ourselves in a hostile world. An increase in our military expenditures by one-half would represent larger annual outlays than all needed credit and relief expenditures for Europe. Such an outlay for armaments would be totally unproductive and its effects would be far more inflationary than foreign aid or credits. An attempt to combat inflation by cutting off our export surplus thus would quickly end in intensifying rather than mitigating inflation.

Even if the impoverished nations of Europe did maintain their ties of friendship with the United States, they still would remain economically pauperized. In such a pauperized world, the resumption of normal commercial relations and the achievement of a sound international economy would be impossible. True, we might not have an export surplus, but only at the cost of stifling our foreign trade. Our international payments might be in balance, but in depression rather than in prosperity. Economic disturbances have a way of spreading, and it is impossible to foretell how far they will reach and how deeply they may affect branches of the economy that appear to be utterly sound. Misery breeds misery.

Cessation of our foreign aid program could easily lead to a repetition of developments in 1929-33. The abrupt end of our foreign lending after 1929 was a major cause of the international financial crisis of 1931, which in turn almost wrecked our own financial and economic system. Europe today could stand such a shock even less well than in 1931, and although our economy today is more secure than it was 15 years ago, it still has many vulnerable spots. We need only mention the possible fate of our cotton and tobacco farmers to illustrate the importance of a foreign market to many sectors of our economy.

Therefore, a complete breakdown of the European economy would be calamitous to the United States economically.

Combating Inflation by Foreign Relief and Credit Assistance

Fortunately, we are not compelled to sacrifice Europe for the sake of our struggle against inflation. This struggle will not be won overnight; the problem is too complex and its roots are too firmly set in the consequences of our war finance. Over the longer run, however, we can expect to stem the tide of inflation more certainly by adopting measures that admittedly add somewhat to the domestic scarcity of certain commodities over the short run.

The danger of inflation will be overcome once supplies of goods and services have increased sufficiently to catch up with the larger demand, based upon the expansion in money holdings and money incomes. This increase should take place not only in our own economy, but also **abroad**. Actually, our foreign aid is anti-inflationary whenever it makes possible an increase in **production** of scarce goods abroad. **It** is true that this process takes time. In the period of transition, **we** shall have to concentrate upon domestic measures.* We need to stop the further expansion of currency and bank credit, and to restrict temporarily the unessential domestic consumption of scarce goods that are needed for more essential purposes abroad.

Under peacetime conditions, this program will need to be accomplished on a basis consistent with American traditions. This requires that the program be voluntary. The cost of failure would reach into the pocketbook of every business enterprise and of every individual.

The General **Report** of the Committee of European Economic Cooperation, to which I referred earlier, not only depicts the economic state of Europe, but also points the way to appropriate remedial policy. **For a long time it has been obvious to careful American observers that Europe needed not less but more imports to restore stability at satisfactory levels of output and consumption.** According to the report, the co-operating countries and Western Germany need imports from the United States **that would amount to $6 billion in 1948** but decline to just over **$4 billion in 1951.**

On the other hand, these countries expect **to raise their exports to the United States almost a billion dollars between 1948 and 1951. Altogether Western Europe expects a deficit with the United States amounting to more than $5½ billion in 1948 and gradually declining to $2½ billion in 1951. In the entire four-year period 1948-51, the total deficit is estimated at almost $16 billion.**

These sums would not constitute all of the dollar requirements of these countries. Western Europe expects a deficit with the rest of the American continents (Canada and Latin **America**) declining from about **$2 billion** in **1948** to about **$1 billion in 1951** and totaling **$6 billion over** the entire period.

Overseas dependencies of European countries **also** will have small **deficits. These** deficits would bring **total dollar** requirements to sums ranging from **$8** billion in 1948 to about $3½ billion in 1951. **For** the entire four-year period, the total dollar needs would reach about **$22½** billion.

These figures at best are rough approximations and it is quite likely that some of them have been estimated **too** generously. But every banker knows that the estimates of a prospective borrower need to be screened carefully to make sure that the loan proposal is not to finance an uneconomical plan. At the same time, every banker knows that he must guard against cutting estimates unnecessarily in the mistaken belief that half measures are better than none. Over-strict limitations of financial assistance may ruin an enterprise just as surely as no assistance at all.

If we compare recent statistics of foreign trade between Europe and the United States with the estimates of the Committee on European Economic Cooperation, we shall find that the proposed estimates seem quite reasonable. The trade deficit of the so-called "Marshall Plan countries" with the United States was close to a $4½ billion annual rate during the first half of 1947. The Committee estimates for 1948 a trade deficit only slightly larger, and for the years after 1948 a deficit actually smaller than the annual figures

*I discussed some of these domestic measures in a talk before the District of Columbia Bankers Association on Oct. 20, 1947. (See page 14 of last week's Chronicle.")

indicated by the experience of the first six months of this year.

The United States is not asked to finance the entire dollar deficit. European countries having investments in this country may be able to liquidate considerable parts of their holdings. They also will have to seek assistance from other nations in the Western Hemisphere and to use the international financing institutions and private sources of credit.

The countries that foresee the largest dollar needs for 1948 are the United Kingdom, France, Western Germany, and the Low Countries. These countries together account for more than four-fifths of the total prospective deficit. With the exception of Germany, these countries were of undoubted solvency before the war, and if proper assistance is given, they have good prospects of becoming again first-rate financial risks. With the same exception, these countries are close to us both politically and economically, and their principles of social organization and social life, although endangered by postwar poverty, are based upon the same standards as our own. They have old traditions of financial responsibility and honesty. We have valuable investments there to protect: investments of good will and friendship, if not of capital.

More important still, the economic recovery of these countries will be crucial for that of the rest of the world. Today industrial recovery is hampered by deficiencies in coal and steel. The United Kingdom, France, the Low Countries, and Western Germany are the greatest coal and steel producers of Western Europe. With aid that we may furnish, the British and Western German coal mines can be brought again to full production. By that aid, coal production is expected to rise between 1947 and 1951 in the United Kingdom by one-fourth, and in the combined United States-United Kingdom zones of Germany by almost one-half. This increase alone would bring Western European coal production again to the 1938 level and thus end the export drain on our own coal resources.

Similarly, the production of steel is to be revived so as to make it possible for the participating countries to supply the capital equipment needed for reconstruction and development mainly out of their own resources. From 1947 to 1951, Western European steel output is to rise by five-sixths, with a proviso that in 1951 the steel production of the United States-United Kingdom zones of Germany will be only one-fifth of the total, as compared with almost two-fifths of the total in 1938. In this way, economic revival in Europe can be accomplished while at the same time Western Europe is protected against a revival of German aggression.

One of the most important effects of the program would be to reintegrate the economy of Western Germany into that of the rest of Europe. At present, we are bearing a heavy burden in supplying the United States and United Kingdom zones of Germany with the imports necessary to prevent disease and unrest. In the first nine months of 1947, the import surplus of the combined zones, due almost entirely to huge imports to bread grains, reached one-half billion dollars. These imports were just sufficient to prevent starvation, but they were not sufficient to provide a diet needed for efficient work. Imports of raw materials and capital equipment, necessary for the repair of war damage and rehabilitation of German industry, were almost completely lacking.

If we merely continued shipments to Germany at the present level, we would burden ourselves with a permanent liability without any hope of improvement in the German situation. If we increased temporarily our advances to Germany, however, we could finance the importation of foodstuffs, raw materials, and capital equipment necessary to start the revival of German industry. We would thus enable Germany to regain a self-supporting position and to pay for imports by exporting industrial products, as before the war.

Moreover, we would make it possible for Germany to help in the reconstruction of the rest of Europe by supplying industrial goods that today are available from no other source. The lack not only of German coal and steel, but also of German spare parts and precision instruments has been a major factor in slowing down industrial recovery in Western and Central Europe. A revival of the German economy thus would accelerate the rate of production throughout the European continent. The German situation illustrates with particular clarity how a temporary increase in our export surplus can end the need for such help and reduce inflationary pressures here at home.

Conclusions

Our struggle against the international causes of our domestic inflation can be won only by a kind of flanking attack. We cannot directly cut off our export surplus without creating dangers to our economic system greater those which we want to combat. Our economy must be exposed to the risks of continuing inflationary pressures arising out of a continued export surplus in order to attain a lasting solution of the dual problems of raising world production and balancing our foreign trade.

It is true that in the meantime we shall have to hold inflation in check by purely domestic means, and that these measures may be called sacrifices. They are sacrifices in the sense that we are required to eat somewhat less in order to prevent Europe from starving. They are not sacrifices, however, in terms of our long-run interests. Refraining from overconsumption today will make sure that adequate consumption everywhere will be possible in the future. Giving assistance to Europe today will make sure that world economic stability will be attained and that firm foundations are laid for an enduring peace.

A reduction of our domestic demand for essential goods, to be accomplished, if possible, by voluntary cooperation in a free economy, is absolutely essential to reach these vital objectives. In this cooperative program, the banks and other financial institutions must assume a leading role. In fulfilling this role of leadership, they must see to it that credit advanced to expand enterprise is directed toward an increase in the output of scarce goods with strict economy in the consumption of scarce materials. They must also do all that they can do to see that consumer credit is kept in proper relation with the supply of consumer goods available for purchase.

The Government of the United States can expect such cooperation only if it makes sure that international relief and aid imposes no unnecessary burdens on our economy. The government must set an example by pursuing a course of strict economy in its own housekeeping. Moreover, the government will insist upon full cooperation of the participating European countries and will make sure that their pledges are kept. The European countries will have to draw upon all of their own resources to the greatest possible extent, and they will have to use our assistance for increasing the output of scarce commodities so as to make further assistance unnecessary. National rivalries and prejudices can not be allowed to stand in the way of international cooperation.

In this manner, the assistance which the United States may grant will have an effect even more far-reaching than mere economic recovery. The United States today is perhaps the only great power adhering without compromise to principles of individual initiative and enterprise, with the greatest possible freedom of economic endeavor in both international and domestic relations. The assistance granted to the struggling European countries will do more than anything else to establish these principles abroad.

Adversaries of our political and economic system repeatedly charge that individual enterprise leads to imperialistic expansion and international friction. The most convincing argument to refute this falsehood is to demonstrate that our individualistic system is capable of providing the leadership, the vision, and the practical aid, needed to attain the cooperation of all nations in economic, political, and spiritual reconstruction. This is the only way back to economic stability and a world at peace.

Lawr. Leeby to Open In Ft. Lauderdale

FT. LAUDERDALE, FLA.—On Nov. 1, Lawrence R. Leeby will open offices in the Blount Building under the firm name of Lawrence R. Leeby & Co., to act as broker in over-the-counter securities and general market issues, including stocks and bonds; he will also act as dealer in the retail distribution of investment company shares.

Mr. Leeby for 10 years conducted his own firm in Washington, D. C., and has recently been doing business from Miami Beach.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following changes:

Transfer of the Exchange membership of the late Edward F. Swenson to F. Leighton Meserve will be considered by the Exchange on Nov. 6. It is understood that Mr. Meserve will act as an individual floor broker.

Interest of the late Abraham Ungerleider in E. J. Roth ceased on Oct. 8.

Geyer & Co. Moves Los Angeles Office

LOS ANGELES, CAL.—Geyer & Co., Inc., dealers in bank and insurance stocks, are moving their Los Angeles office on Nov. 1 to 210 West 7th Street.

Hinds With Hornblower

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Robert E. Hinds has become affiliated with Hornblower & Weeks, Penobscot Building. Mr. Hinds was previously with S. R. Livingstone & Co. and the National Bank of Detroit.

Joins Merrill Lynch Staff

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Gordon L. Perkiss is now affiliated with Merrill Lynch, Pierce, Fenner & Beane, Buhl Building.

Carl Smith Opens

(Special to THE FINANCIAL CHRONICLE)

FOSTORIA, OHIO—Carl Smith is engaging in a securities business from offices at 112 West Center Street.

Danger of Our Buried Gold

(Continued from first page)

for funds may endeavor to take the easy way by resorting to further manipulations involving gold. Such a step would make it easy for the present administration of our Federal Government to provide the funds for some things which they might want very much to do but which they would not want to expose to public opinion to the degree which would be necessary, if they had to seek the necessary funds by new taxes or by the sale of more Government bonds.

It is a fact that revaluation of our existing store of gold would have to be authorized by Congress. If so authorized, it would automatically give the Treasury a spendable balance with the Federal Reserve Banks equal to the difference between the value of the gold now deposited at Fort Knox and elsewhere, that is gold heretofore bought by the Treasury at $35 an ounce, and its value at $50 an ounce or whatever other price might be fixed. It would have the effect of giving additional dollars to the countries which now have gold, thereby relieving their dollar shortage and increasing their capacity to spend and buy in this country. It would also have a very definite inflationary effect in that the procedure by which the Treasury acquires gold increases bank deposits and bank reserves available for further extension of bank credit. Presently, most of the gold in the country is owned by the Treasury and deposited principally in Fort Knox. The procedure by which it was acquired tended to give those countries from which it was imported dollar balances for the purchase of goods here and, also, to increase bank reserves with a consequent inflation of our money supply.

Gold Buying Procedure

At the moment, the Treasury buys gold either in the domestic or foreign markets and pays for it by check on the Treasury's deposit with a Federal Reserve Bank. The effect of this transaction is to decrease the Treasury's balances with the Federal Reserve and to increase bank deposits, either immediately or in due course, by the amount paid by the Treasury for the gold. If the transaction ended here the Treasury would be out the cost of the gold and it would need to replenish its balances in the Federal Reserve either out of taxes or by borrowing. These sources of Treasury funds are not politically available because they would bring the whole matter to the attention of the voters.

What the Treasury does after acquiring title to gold by its check on its balances with the Federal Reserve is to issue to the Federal Reserve a gold certificate. This gold certificate when deposited with the Federal Reserve is accepted by the Federal Reserve as so much money and the bank balance of the Treasury is immediately restored. As a matter of fact, the Treasury no longer goes to the trouble or expense of printing gold certificates. It has what is known as a gold certificate account in which it credits the Federal Reserve with the dollar value of the gold certificate which the Treasury might issue to the bank.

This bookkeeping operation is accepted by the Federal Reserve as justification for restoring to the Treasury's bank balance the amount which it had already taken out to pay for the gold which it had purchased. The effect of the whole transaction in so far as our money supply is concerned is an increase in bank deposits, and therefore in money supply, of the amount which the Treasury paid for the gold.

This process is continuing at the present time and the importation of a billion and a half of gold in recent months has, therefore, added that much to the already swollen money supply of the country. The gold is presumably buried at Fort Knox; the Federal Reserve has a bookkeeping entry in its favor in the Treasury; the Treasury has a bookkeeping entry in the Federal Reserve which restores to its deposits the amount which it paid for the gold, and the increase in our money supply has been accomplished without even the use of a printing press. Nothing was needed but the bookkeepers' entries.

Now, what happens as gold goes out of the country? Gold goes out of the country only to a foreign government or its central bank and it goes only in settlements of trade balances in favor of some foreign country whose exports to this country are greater than its imports from this country. When gold goes out of the country the effect of the process, above described, involving purchases of gold by the Treasury is reversed. To the extent that gold leaves the country, Treasury gold certificates credited to the Federal Reserve Banks are eliminated from the Treasury's books and from the Federal Reserve accounts. The net result is a decrease in bank deposits and a deflation of the money supply.

Could Go Back to Convertible Standard

It is often asked, could we now return to the gold standard, that is make our paper money redeemable on demand of the holder in gold or gold certificates? Yes, we could go back to the gold standard abandoned in 1933 because of political hunger for more money irrespective of its purchasing value. We would simply turn back to the Federal Reserve the gold itself and take down on the Treasury's books the Federal Reserve's credit for gold certificates or take back any gold certificates that in our more innocent days we actually issued to the Federal Reserve Banks. This action would put our currency, not only for the next 24 hours or 24 days but for the indefinite future, in a position where confidence in its future purchasing power would be increased.

This would give all of us greater confidence in making commitments for the future; it would lay the foundation for great improvement and expansions and developments in this country on capital supplied by those who are willing to lend for the long term on the assurance that they would get back dollars with somewhere near the purchasing power of the dollars invested. Not alone would it be the foundation for sound, sensible, civilized progress in this country, but it would be the foundation upon which world stability, world trade, world peace might be built.

The writer is not advocating a present return to the gold standard. It would be sufficient for the moment if the consequences of further devaluation of our dollar by a change in the price we pay for gold were understood and considered by the people of this country. If it is understood and considered, it will unquestionably be rejected if proposed. If such matters are left until an emergency is used as the excuse for unsound or even fantastic proposals, then there is no assurance that they will be rejected. Certainly as long as that gold remains buried at Fort Knox there is a danger of further devaluation with its demoralizing financial and political effects.

The Right Kind of Tax Reduction

(Continued from first page)

as a bi-partisan measure in view of the substantial support given to it by both parties in Congress.

There are compelling reasons, also, for holding that there should be no politics in taxation. Everybody, regardless of party, race, color, or creed, has to pay taxes. Like the rain, they fall on the just and the unjust. Under our system of majority party control and responsibility, tax legislation must originate and be sponsored by a committee of the House of Representatives on which the dominant party at the time has more members than the minority party. This is equally true, however, of legislation pertaining to foreign affairs, labor, and every other subject with which the Congress deals, except that legislation other than that pertaining to the revenues may be initiated either in the Senate or the House.

Politics vs. Welfare

If we accept the thesis that there should be no politics in taxation, our problem is that of an approach to the question of tax revision in terms of the general welfare rather than in terms of vote-getting advantage. Although it is a large concession to make, suppose we grant, for sake of the argument, that the politicians in both parties are aware of this statesmanlike conception but that they differ as to its practical application. This would mean that what appears to the observer to be a vote-getting scramble is really a basic conflict of ideals and standards as to the best methods of serving the general welfare.

Divergent views on tax revision do exist and are advocated in all sincerity by those who hold them. The first step toward a rational solution is to seek for a common ground upon which these differences may be resolved, or at least minimized. If we succeed in this, we shall have the better assurance that the coming tax revision will be so designed as to serve the public interest. The purpose here is to explore the subject with a view to developing the proper relationship of taxation to the general public good.

In such an undertaking we should begin by setting out some of the basic elements in the concept of the general public good. Little difficulty should be encountered in reaching agreement here.

Basic Objective of Economic System

The primary objective of a good economic system should be that of enabling every able-bodied person to contribute in some manner to the product of the society and to share in that product to a degree commensurate with his contribution. In other words, the system should provide jobs for all who are able to work, and income sufficient to assure a reasonable and satisfying reward for the work done or other contribution made. We believe that we have, in this country, the best economic system in the world. It is called the free private enterprise system. It provides jobs without compulsion and it yields, for the great bulk of the workers, the highest income and living standard to be found anywhere in the world.

There are many reasons of a non-economic sort which are important to these results, such as the various freedoms which we enjoy, but these are passed over here. In the economic area, two factors are especially important. The first is our immense supply of capital, and the second is the free play which we have traditionally given to the economic activities of work, thrift, and risk-bearing.

There is little need to argue in support of the importance of capital to our economy. From the moment that anyone understands what capital is, namely the stock of tools, machines, buildings, ships, railroads, and so on that are used in production, he cannot fail to grant the fundamental importance of capital as a source of jobs and as a highly significant factor in the creation of the high level production which we have.

It is at the next step of the argument that differences of opinion emerge. It has been held by some that because of the immense supply of capital now on hand, further capital expansion is not needed. Some of the opposition to the 1947 tax legislation was based on the contention that since there is now virtually full employment, there is no present need to make further saving and investment possible through tax revision, because there would be no outlet for the funds.

Need of Capital Replacement

This argument neglects the facts of history and of current and future economic needs. Studies that have been made of the growth of the gross national product since 1869 show that there has been, regularly and consistently, a "plow-back" or investment in capital formation of about 20% of the gross product. The one decade since 1869 in which this ratio of capital formation to gross product was not maintained was that of the 1930's. It is significant that this was a period of sharply rising tax rates and also of large-scale unemployment. The accumulated deficit in capital formation from 1929 to the present is estimated to be $125 billion.

The reinvestment has been for two purposes: first, the replacement of worn-out and antiquated tools and machines through the establishment and use of reserves for depreciation, obsolescence and the like; second, the over-all expansion of the nation's capital equipment.

It has followed rather consistently since 1869, that by a reinvestment of some 20% of the gross national product, there has resulted a growth of the national product at an average annual rate of 3.8% a year. In consequence of this growth, which is really quite phenomenal, the output per man-hour of labor has steadily risen, the rates of money wages have also risen, the quantity of goods that could be bought with a dollar of wages (the real income) has steadily increased, and jobs have been provided for a labor force that has increased from 27,378,000 in 1900 to 62,664,000 in 1947.

The contention that no further provision of capital is now needed overlooks, also, the facts of the current economic situation, and even more serious, it neglects the requirements of the future. It is as necessary today as it has been at any time in our industrial history that the experience rate of capital formation in relation to gross national product be maintained. Otherwise, the experience rate of annual growth will not be maintained. Should there be a serious decline of this rate of annual growth, the effect would quickly be seen in growing unemployment, a halt in the advance of real wages, and a slackening of living standards. New workers are coming into the labor force at the rate of about 600,000 per year and they cannot all find jobs without a corresponding growth of capital. Moreover, the process of technological improvement requires large amounts for the replacement of equipment rendered obsolete by these improvements.

Venture Capital Shortage

The answer is that we do need and must have a substantial amount of saving and capital investment if we are to continue to go forward in output, in income, and in living standards. It is therefore necessary to make changes in the tax system that will permit and encourage this capital formation to occur. But the need for the future can be stated in still more specific terms that will point up still more sharply the case for sound tax revision. The most serious deficiency that is certain to develop, unless the existing tax system is promptly and soundly revised, is a grave shortage of that type of saving and investment which will result in what the economist calls "venture capital." By this is meant the capital that is put into risk enterprises, as distinguished from the savings that go into the relatively safe investments. No investment, not even a government bond, is absolutely risk-free. But the differences in the degree of risk are very great. The areas of greatest risk are those which involve the development of new industries, new products, new methods of operation. No one can or should guarantee these risk investments against loss. They are made only when the prospect of profit, in case of success, is commensurate with the calculable risks. The present tax system has forced the profit ceiling down to a level at which venture savings cannot, and will not be made. Yet the dynamic growth of the country has come, in the past, from the risk investments rather than the safe investments, and this must continue to be the case in the future.

In addition to the nation's immense stock of capital, the second thing that makes ours the best economic system in the world is the recognition which has traditionally been given to the free play of the economic incentives. Until the advent of the socializing and equalizing taxes, we have never sought to limit the amount of money anyone could make or to determine how he should spend it. In particular, we have given full recognition to the mainspring of our economic system, which is the profit motive. This motive is fundamentally important for the growth and vigor of venture capital. The socializing tendencies have gone so far that many businessmen are reluctant to talk about profits, despite a recognition of their essential importance. We cannot get the necessary flow of savings into venturesome fields of investment without adequate recognition of profits as the dynamic incentive which motivates such investments. And without a large and steady flow of venturesome investments, there will be no extension of the frontiers of the economy. It is not too much to say that the future jobs, income, and wellbeing of millions of our citizens depend upon an adequate recognition of the moral and economic worth of profits, and upon a removal of the taxation barriers which now impede the free operation of the profit motive.

The Public Debt

Before passing to a discussion of the kind of tax revision which must be undertaken in order to realize the vital objectives of adequate capital formation and release of the economic incentives, it is necessary to deal with a question that has been much to the fore, namely, whether in view of the size of the public debt we should consider any tax reduction at all.

The gravity of the problems presented by the public debt is indisputable, and the importance of sound management and regular retirement is obvious. Many responsible organizations have advocated the adoption of a consistent policy of debt redemption. It is an elementary fact that the only way by which debt can be retired is by application of surplus revenues, that is, the excess of revenue receipts over current expenditures. But there are several angles to this issue which should be considered together. The first is the matter of policy. Are taxes to be kept high to support greater spending or is there a bona fide concern about the debt? Some of those who opposed tax reduction in 1947 on the ground that debt reduction should have priority were nevertheless silent with respect to the size of the federal budget, a budget so large as to preclude any substantial margin for debt purposes except by the fortuitous circumstance of receipts greater than the budget estimates. This argument would have greater weight had it been accompanied by insistent pressure from its proponents for drastic budget cuts.

The second facet of the debt problem is therefore the size of the budget. Until this is settled we cannot be sure of a margin of receipts for debt reduction, to say nothing of tax reduction. The writer has recently compiled budget data which make a reasonably defensible case for a total of not more than $31 billion for the fiscal year 1949 without impairing national defense, the care of veterans, or our presently estimated commitments for foreign relief and assistance. Even those who insist upon debt reduction instead of tax reduction should be prepared to support some such total.

The third facet of the problem is of equal importance. It is clear that our ability to support the debt and eventually to get rid of it is dependent upon long-range maintenance of high levels of production and national income. We shall get nowhere fast if we look merely at the debt payment that may be made in a single year or so, while failing to take the steps which are essential to continued economic growth and prosperity. In view of the direct bearing of capital formation upon the continuance of high level production and income and the need to promote this formation by suitable tax revision, it can be asserted without fear of successful contradiction that better headway will be made over the next ten years in debt reduction by reducing taxes in the right way now than will be made by refusing to take such action.

The Right Way of Tax Reduction

As to what the right way of tax reduction is, it can be granted at once that all taxes are too high and that the tax burden is too heavy upon everyone. While we must therefore aim to provide tax relief on a universal basis, care must be taken, however, that the federal revenues are not jeopardized, for a federal budget of $31 billion is still a big lot of big money. Moreover, the prime objective of the reduction, which is to make possible the continued growth of the whole economy, will not be realized unless the revision is of a character that will open the way for the necessary venture savings and provide an adequate incentive for their creation and investment.[1]

First priority should be given to the revision of the rates of the individual income tax. This tax affects more persons than any other (some 48,000,000 odd in 1947); the rates still stand close to the wartime peak; and a substantial portion of the venture capital investment that will be needed must come from the savings of individuals, particularly those with incomes from $10,000 up. The change in the rate schedule must be substantial at all income levels. The weakness of the 1947 tax bill was its concentration of the reduction toward the lower end of the income scale. There is no question that the persons with small incomes need direct tax relief; but it is too often overlooked that these small income persons also need tax relief clear up to the top of the income scale. They do not create their own job opportunities, hence they cannot determine, through their own decisions, whether or not they are to have jobs and income at all. These matters depend upon decisions made and steps taken by others. Unless the tax revision is adequate through the income ranges in which are found the persons who must make the decisions and take the actions that determine the jobs and incomes of the small income group, the latter will be the chief sufferers.

The tax rate scale proposed in the program considered here would begin, for the present, at 12% (normal and surtax combined) on the first $2,000 of taxable income and rise to 50% on any taxable income in excess of $100,000. This is not regarded as an ideal scale but it is about all that the budget can stand now. Later, with further reduction of Federal spending it should be possible, as it was during the 1920's, to bring all rates down still more.

In addition to the rate revision, two additional deductions are recommended. One is a deduction up to $500 on account of insurance premiums paid by the taxpayer on the insurance of his own life. The other is a removal of the present 5% limitation on deductible medical expense. Restriction of the deduction to that part of such expense which exceeds 5% of net income limits the privilege, for the most part, to the well-to-do. It is the first 5% that hurts and should count.[2]

The case for these additional deductions is on the ground that, at a time when the Federal Government is under strong pressure to force everybody into a compulsory old age and dependency insurance program, and to bring everybody into a compulsory health insurance program, the person who pays his own bills for insurance and medical care should have some recognition for his effort. It is extraordinary that one can get complete exemption up to 15% of his net income by giving the money to a philanthropic organization which looks after stray dogs and cats, The Society for the Prevention of Cruelty to animals, but he cannot get a nickel of tax benefit for the money spent for the health and future welfare of his wife and children.

The right way of tax reduction now is through revision of the rate scale rather than through increased exemption. The latter course is very popular but its consequences for the nation's broad economic requirements are not duly considered. Whatever the amount of increase in the exemptions, the great bulk of the ensuing tax relief will go to the small income group. For example, an increase of the exemption by $100 across the board, married, single, and dependents, would reduce the revenue at 1945 rates by $1,616 million, of which 91.5% would fall in the net income classes under $5,000. Such an increase of exemption, however, is only "chicken feed" for the taxpayers. If exemptions were raised from the present $500 per person to $2,000 for married persons, $1,000 for single persons, and kept

1 The tax revision program to be outlined here is one which was presented by The National Association of Manufacturers to the Ways and Means Committee on July 11, 1947. It has been published in *Hearings before the Ways and Means Committee on Proposed Revisions of the Internal Revenue Code*, Part 3, pp. 1447-1475.

2 These deductions were proposed by the writer in the Fourth Edition of *Public Finance*, 1947, pp. 346, 347.

at $500 for each dependent, the revenue loss would be, according to Treasury estimates, $5,411 million, of which 91.7% would accrue to the net income classes under $5,000. The conclusion is clear. If exemptions were to be raised enough to satisfy the ardent advocates of this procedure, the revenue loss would be so great as to preclude adequate tax relief throughout the income scale. The fundamental objective of sustaining capital formation would necessarily go by the board and the small income groups would gain only a temporary advantage.

Double Taxation

Two other proposals for individual income tax adjustment are recognized to be important but they should be deferred for the present. One is the correction of the double taxation of dividends, the other is the division of income between husband and wife for income tax purposes. The total revenue loss from these devices, at 1945 rates, would be about $1,750 million. The reason for advising deferral of these procedures for the present is that they do not relate to all taxpayers. There are perhaps 10,000,000 dividend recipients as against more than 48,000,000 income taxpayers in all. Only about 4,500,000 persons would benefit from the family division of income. Yet the revenue cost is substantial and there is danger that incorporation of these limited relief features may interfere with the kind of thorough-going tax rate revision which is fundamental if all taxpayers are to share adequately in the benefit. The reduction of rates would ease, by so much, the severity of the discrimination which these devices are designed to cure. The Treasury and some members of Congress have intimated that some increase of rates might be necessary to offset the revenue loss from division of income. Again we have a demonstration that nothing can take the place of tax rate revision downward.

For those taxpayers who would be in position to take reasonable deductions for insurance and medical expense in relation to net income, the program outlined here would produce a fairly uniform percentage cut of 40% across the board. At the very bottom it would be a 60% cut. This is, therefore, a far better program than that embodied in the 1947 tax bill.

A word should be added about the proposed limitation of the maximum rate of tax to 50%, effective as to taxable income above $100,000. Under the 1945 rates, the tax rate exceeds 50% at the $18,000 taxable income level, and it is about 75% at the $70,000 taxable income level. Rates such as these defeat the capital formation objective, first, by cutting deeply into the portion of income that would be saved were taxes lower, and second, by destroying the incentive to save and assume risks in view of the slice that will be taken out of profits if the venture is successful. It should be emphasized that the tax reductions proposed through the middle and upper incomes are in no sense based upon the consumption requirements of those who receive such incomes. These persons, in general, still have enough, even after present taxes, for their consumption needs. The taxes which they pay today come out of their potential savings. They are neither able nor willing to supply the funds that are needed, and that will be needed even more sorely in future, for capital formation.

Reduction of Corporate Income Tax

It came as a great surprise to observers and commentators that the National Association of Manufacturers, representing large and small corporate industry, should not put reduction of the corporation income tax in first place in its program. There is no question that the present rate of corporation income tax is too high and should be lowered. But the facts of the situation made a much stronger case for individual income tax reduction, and the budget need, however optimistically viewed, does not now permit both. It is true that additional venture capital funds would be created by a reduction of the corporation tax, to the extent of the increased earnings after taxes; but the chief beneficiaries would be the large, well-established companies, whereas the chief need for such capital is and will be in the area of small, new business which would derive no direct benefit from a reduction of the corporation rate. Further, as long as the individual rates remain at their present confiscatory level, there would be small comfort for the investor from reduction of the corporation rate and the consequent forcing into his hands of larger dividend payments to the extent that Section 102 is applied. He would have neither greater ability to save nor greater inclination to save, unless and until his own rates of tax were reduced.

Excise Taxes

The large and fiscally important field of excise taxes is one which produces much discussion and widely divergent views. At one extreme are those who advocate elimination of all excises except those on liquors and tobacco on the grounds that excises are (a) regressive, and (b) deflationary. At the other extreme are those who would resort to a substantial expansion of excise tax yield in order to permit still more reduction of individual income taxes.

The writer holds the view that there should always be a substantial reliance on excises for the reason that these taxes are more resistant to depression conditions than are the income taxes. Since every possible effort should be made, in lean years as well as good years, to avoid further deficits and increase of debt, it necessarily follows that there should be a good, reliable revenue cushion for the lean years. The present selective system, under which some classes of goods are taxed while others are not, is irksome to manufacturers, retailers, and perhaps to consumers. This source of irritation could be removed by the substitution of a general manufacturers' excise, and a proposal to this end is before the Ways and Means Committee in a bill prepared by Representative Gearhart of California. His plan merits, and should receive, careful attention by that committee.

The problem of Federal-state tax relations will be more prominent as we move into the normal post-war period. As a first gesture, it is proposed that the Federal Government withdraw from the estate and gift tax field, leaving it to the states. The proposal has the support of NAM and other groups, although some have expressed concern over the competition among the states that they fear may ensue. The prospect gives the present writer no concern whatever. For one thing, it may be anticipated that the majority of the states would levy reasonable rates of death tax, a condition under which there would be little inducement to migrate. For another thing, if the states which gave decided concessions by way of rates or exemptions were to be the poorer states, and past experience points that way, it would be a good thing for the others, on balance. At present a group of some 16 states, the wealthier states by certain standards of comparison, are heavily taxed in order to provide subsidies of various sorts for the other 32 states. To the extent that these poorer states were able to attract residents having incomes to spend and funds to invest, through an estate tax concession, the income and wealth of these states would be raised and the real grounds for large subsidies from other states would be removed. The rich states would gain far more from such an outcome than they would be likely to lose in death taxes because of the transfers of residence.

Conclusion

In conclusion: The tax program outlined here is designed primarily to promote the general public good while at the same time preserving the integrity of a reasonable Federal budget. This program is not the "soaking" variety. It does not aim to soak either the poor or the rich. We cannot build for permanent growth and prosperity by the soaking process. Each citizen has his own self-interest, and he will work harder and do more under the stimulus of that motive than under any other. We can escape from our present plight of inflation, soaring prices, and high living costs by increasing our production. Beyond any doubt or argument is the fact that the most essential requisite of increased production is more capital and better capital. Taxation, or the lack of it, is never a direct incentive to work, save, or produce. It is a burden, a brake upon the free operation of the motives which impel men to do these things. Tax reduction is a release of the brake pressure. Hence it is likely to follow, in future as it has in the past, that tax reduction involves only a temporary impairment of the revenue. It is entirely possible that the Government will presently be getting in as much under reduced rates as it is now getting under high rates. It is absolutely certain that the people will work harder and live more happily when more of their respective incomes is left in their own pockets for them to spend as they like than can be the case when as much of that insome is taken from them by the confiscatory power of taxation as is now taken to be spent at the discretion, or the whim, of some faraway bureaucratic agency in Washington.

Hancock Heads Group In Hospital Drive

John M. Hancock of Lehman Brothers has accepted the Chairmanship of the Investment Bankers Division for the United Hospital Drive. George K. Coggeshall of Schoellkopf, Hutton & Pomeroy, Inc., Chairman of the division last year, is this year's Vice-Chairman.

John M. Hancock

Norman H. Jensen with Paine, Webber Firm

Paine, Webber, Jackson & Curtis, 25 Broad Street, New York City, members of the New York Stock Exchange, have announced that Norman H. Jensen has become associated with the firm in the municipal bond department. Mr. Jensen was formerly with Charles Clark & Co. and Stranahan, Harris & Co. Prior thereto he was with Eldredge & Co.

Big Bull Market Ahead!

(Continued from page 3)

future price declines may be very gradual and it is important to bear in mind that farm commodity prices have shown a continuous downturn at many times in our history while the nation was enjoying a period of extended prosperity.

Building Buyer's Strike Petered Out

The buyer's strike in the building industry has been given wide publicity, but it failed to materialize and a 20 year record was broken when 80,000 new homes were started in July, 1947. It is believed that prospective home owners are not balking because of higher prices but because of poor quality of materials and interminable delays which have occurred after the building has started. These things tend to increase labor expense while the workers are on the job without any compensating results. Conditions are gradually returning to normal and there is every expectation that building will continue at a high level for several years. We may not be able to reach the objective of 1,000,000 homes a year but the outlook for building seems quite favorable.

Apprehension over the sufficiency of dollar exchange in Foreign countries has not been justified. The National City Bank recently pointed out that Foreign Exchange held by most countries was more than sufficient for normal needs. When we talk of dwindling dollar reserves we really dodge the true issue. This concerns the rising importance of America's low cost productive capacity in relation to that for the entire world. Goods produced by mass production techniques are in great demand and will continue to be in demand for many years. Dollar balances may decline but U. S. imports of raw materials will tend to offset this and even with a drop in our export trade volume over the next few years, domestic demand will take up much of the slack.

International Situation Clarified

The international situation appears to have been clarified in recent weeks. The United States is taking a firm stand and the days of appeasing the Russians are over. General Marshall is well informed with respect to Russian military strength and internal conditions in that country. Various confidential sources report the danger of an internal collapse in Russia is probably more imminent than any early war between Russian and the United States. Many prosperous countries are still linked with England's economy and extreme pessimism over that country's future outlook does not seem justified.

The major reason for apprehension with respect to foreign commitments concerns the possibility of our loaning money to everyone and not getting anything in return. Most people would like the United States to return to comfortable isolation. No one of us wants to throw our money away in foreign lands or become involved in new wars but it appears that our present Foreign policy is sound and realistic. The United States in its new role as the major power in the world must be prepared to assume definite responsibilities.

Greater Labor Efficiency

One hears conflicting reports from industrial executives relative to labor productivity but there is no question about the trend at this time toward greater efficiency. Union treasuries are depleted and the 24-hour daily bombardment from radio and press of a "depression ahead" is beginning to have a telling effect on the workers. Laborers are beginning to worry about their jobs and if this is true, the "depression of 1947" as advertised will probably have served some useful purpose. The strength of the labor movement has passed its crest. While both political parties will use care and proceed slowly in correcting labor's abuses, the turn has definitely come as evidenced by the passage of the Taft-Hartley bill. For the first time in over a decade there is reason for real optimism.

Common Stocks the Cheapest Property

Almost every form of property can be purchased only at prices materially above 1937 price levels while common stocks are selling below the 1937 highs. These common stocks have equities in such tangible things as plant, equipment and current assets. General Motors carries its plants at very nominal net plant value, but real estate has advanced in Detroit, building costs are up and General Motors has to carry more fire insurance on plants which have a current reproduction cost two or three times as great as the same plants had in 1937.

This situation is true of most corporations but many investors have lost perspectives. Common stocks of leading American corporations today represent the only remaining bargains in tangible property available to the investor. These equities represent an interest in corporations conducting operations in the only strong remaining capitalistic nation of importance. If stocks were selling at a premium there might be some reason for concern but this does not appear to be the case. The deferred demands of World War II dwarf those which accrued from World War I and this nation might well experience eight to ten years of sustained prosperity with only minor periods of business recession and adjustments to changing conditions.

The pent-up demand for goods is so great that the stage setting is not conducive to a depression. Except for farm commodities, the price level does not seem too high and inventories are not excessive. Since there is abundant purchasing power and a good demand for consumer and durable goods, major corporations will spend substantial amounts of money this year for plant improvements to take care of record demand. DuPont, Eastman Kodak and many other chemical companies have announced important plans for plant expansion.

New Jersey Standard cancelled its plans for construction of a new refinery at Billings only to reverse its decision and approve completion of the project. Westinghouse, General Electric, Archer-Daniels-Midland and many other concerns have extremely ambitious expansion programs which will not be completed until 1950. The pessimism in retail trade circles is not stopping construction of many new stores, at high costs, in choice suburban areas. Many economic problems remain to be solved but with greater conservatism in government and a passing of the peak in labor's power, investors have reasons for being optimistic over the immediate outlook.

General Securities Co., Inc.

(Special to The Financial Chronicle)

BATON ROUGE, LA.—General Securities Co., Inc. is engaging in an investment business from offices at 222 Convention Street. Officers are George H. DeClouet, President; P. F. Schilling, Vice-President, and Stella C. DeClouet, Secretary.

Capital Formation—Life Line of Progress

(Continued from page 2)

receive a larger proportion of federal aid.

New England's Problems

New England's problem in large measure is up to her own people but at the same time your economic welfare is bound up with that of the nation. As a Massachusetts manufacturer, I am vitally interested in any plans you have for improving the economy of this area but today I want to talk to you about a national problem which if not taken care of right soon will mean that nothing you folks try to do for New England will be very effective.

New England needs an America that is going forward at at least the same economic pace as before the depression. New England needs a federal tax program that permits greater savings on the part of the individual so he may buy more of what New England has to offer in the way of manufactured product and scenery. New England needs a tax program that is not discriminating against her with respect to other parts of the country.

What I have to say, today, while on the national level, fits New England's needs well.

There is a point beyond which Americans' incomes cannot be taxed if this country is to have enough capital — enough jobs, wages, goods or profit to anyone. That is, of course, on the assumption that we want to continue to do business on the free enterprise basis. It must be remembered that when government collects taxes it does not reduce the total buying power of the country. It merely transfers the spending of that money from individuals or private organizations to itself.

Our problem, therefore, is not how much buying power there is in our economic system but who is to do the buying and how.

Certain taxes are inescapable. Beyond that government spending should be limited to the point that taxation does not undermine the economic progress of the nation.

Now what is this point or benchmark? It is our national "seed corn"—in other words the amount that must be saved each year out of production to plant in anticipation of a bigger and better crop next year and the year following. This is capital formation.

Data from 1869 through 1930 compiled by the National Bureau of Economic Research, and later corroborated by U. S. Department of Commerce data, show that during that 60-year period about one-fifth of the nation's total production was needed, decade after decade, for investment.

Decline in Capital Accumulation

In that same period, this annual contribution to capital formation led to eight times as much production, or at an average rate of 3.8% increase per year.

Also, productivity of labor doubled as the result of the worker being given more and better machinery and tools with which to work, that is the added investment put behind him. And at the same time labor's real wages—purchasing power—were doubled.

The record of those six decades is unequaled by any other nation. But the record of the next decade, 1928-1938, is equally significant—the other way round. In not one of these years did capital formation reach one-fifth of the national output. And this was the first decade since the Civil War when the level of production did not advance. Without an adequate flow of capital, the American people did not prosper.

Without wishing to imply that lack of capital formation caused the depression of the '30s, there is significance to the fact that during that decade of deficiency of new capital there was no prosperity.

Now, however, with national income and employment at peak peacetime levels, sufficient capital from private savings needed to maintain our pre-depression rate of growth cannot be accumulated later because of the federal taxing program.

Sound taxation would estimate and allow for the deficit in capital formation which has to be made up, and the imperative need for new capital. If Americans do not insist upon thorough-going tax reforms, over-taxation will kill the goose that lays the golden eggs of better jobs, better wages, better goods, lower prices.

What do we need in dollars of capital to keep our nation moving forward at its pre-depression rate of 3.8% a year?

Department of Commerce figures show that during the past ten years capital formation fell behind by $125 billion. Not all of this deficiency, however, has to be made up. For example, many machines that would have been bought ten years ago had capital been available would already have been worn out or obsolete. Moreover, it will obviously take time to accumulate capital, during which time more machines would have been worn out or superannuated. Making every conservative allowance, the very minimum deficit to be made up stands at around $30 billion.

The faster this $30 billion lag in capital formation is made up, the sooner will the nation and our standard of living again move forward.

Obviously, however, it cannot be done at once, but $6 billion a year for five years, and with the right tax encouragement, should be perfectly feasible. This, I might add, is an extremely conservative estimate.

In addition to making up for past losses, we must again make it possible for one-fifth of American production—$36 billion a year—to be plowed back into capital formation.

$36 billion of new capital formation, plus $6 billion to make up the deficit, would mean $42 billion dollars needed this year. Allowing for the 3.8% forward march in production which adequate capital brings about, this would increase to nearly 48 billion in 1951 and to more than $50 billion in 1956.

That's still a lot of money. Where are we going to find it?

Without boring you with a lot of statistics showing the contribution of each of the four sources of capital funds—business reserves, government subsidies and loan and debt retirement, retained corporate earnings and individual savings at present levels of taxation—I can tell you that all of them put together won't be enough.

Next Few Years Critical

These next few years are critical ones. Socially, politically, and in terms of national economy, we must progress. Even standing still is tantamount to slipping. The need for savings for capital formation was never more pressing. On what we do now will depend in large measure the trend of our future development. Nor is it enough to have adequate overall savings. They must be of the right kind—and that is where the long term pinch comes in.

Capital is formed from two kinds of savings—that which requires security and that which may be risked. Of course, the only difference in any business investment is one of priority of safety. Nevertheless, we recognize that certain kinds of savings require protection while others may be risked. The latter is venture capital and is the first step in any expanding economy.

Venture capital will not come from government funds because government may not risk its citizens' revenues in venturesome enterprises.

It will not come from savings bank deposits because such banks are not permitted by law to take long risks with their depositors' savings.

It will not come from insurance companies because their function is to protect, not to risk.

It will not come from the savings of families with small or even moderate incomes because they must keep their principal intact.

Sources of Venture Capital

Venture capital comes from the savings of those who can afford a partial or total loss. Venture capital requires vision to see opportunities in invention, such as the automobile when it was still a "horseless carriage," or in exploration, such as mining, or in the expansion of going enterprises. Venture capital always aims at increased production and employment. Venture capital is the spring from which the so-called "American way of life" is invigorated. Without it in adequate amount our economy would dry up and wither.

Nevertheless, and this is the startling fact, careful reckoning shows that in three years time the deficit of venture capital available will be even greater than the deficit in total savings. Much greater!

It's much like the food situation in several countries today. Not only are they short of food generally but in strength building foods they are much worse off than overall figures indicate. We need more capital generally than appears available from savings but when it comes to venture capital—the vitamins of business—we are even further behind.

Venture capital, by and large, comes from but two sources—retained corporate earnings and savings from large incomes.

It might be expected that with a larger gross the retained earnings would grow sufficiently to provide a constantly increasing source of risk capital. If all other conditions were the same as formerly such would undoubtedly be the case, but starting in 1950 and as long as corporate taxes remain where they are, we can look forward to a declining contribution to venture capital from retained corporate earnings.

For the next two years, corporate surplus accumulated during the war will be available to take up a large share of the load but when that source has dried up our real problem will begin.

Until 1950, then, our tax problem is one mainly of creating an adequate over-all volume of savings after which the major problem will be one of finding enough venture savings.

Effect of Taxes

Taxes which might effect these savings are: (1) corporation income (2) excise and (3) personal income.

Savings from relief in corporation income taxes would be available as venture capital but the risk for the most part would be in expanding going businesses rather than the creation of new industries. Some of the relief from excise taxes might become venture capital but not in sufficient volume to make this an important source.

This leaves us personal income taxes as the major source of savings from tax reduction.

In the small and medium income groups savings from tax reduction though small individually are considerable in the aggregate. Because they are accumulated only by self denial somewhere along the line, they seldom can be risked but must go into secured investments.

Since it is only in the higher income groups—$10,000 and over—that savings generally speaking may be risked this group represents the largest source of venture capital. The return for the venture, however, after taxes must be compensatory to the risk else these funds will of necessity seek security.

It's just as simple as that. There's no hocus-pocus about it. You can't expect men to risk their savings when the return is little if any greater than they would receive from secured investments.

We need more savings in this country to provide the over-all capital requirements and for that reason we advocate an equitable tax reduction for all income taxpayers—across the board—and a tax schedule that is non-confiscatory at any level.

In this way we believe total savings can be built up and venture capital encouraged.

Venture capital from private savings is the only investment that encourages initiative and because it has the incentive of gain it is creative.

Where capital gains, labor gains—more jobs and better pay.

As has been proven in Eastern Europe and everywhere else that nationalization has been tried, there is no opportunity for the worker where there is no incentive for venture capital.

The labor is worthy of its hire.

Social Theories and Progress

(Continued from page 6)

promptly and freely as they otherwise would.

Contradictory Aspects of These Measures

In the 1930's, therefore, business was subject to a variety of contrary influences: monetary and fiscal measures ranging from minor inflationary forces to measures which were potentially explosive; centralized controls which said in effect: "Wait until we say go, and then go the way we say; use our judgment instead of yours; of course, we may change our ideas at any time without notice and our directions may be complex, incomplete and obscure, but the risk is yours; if you don't do well, we may take you over; if you succeed, you will be subject to heavy tax penalties." In addition, measures were taken to increase wage rates and other costs before increased activity or prices, or improved efficiency justified the advances. The purpose was to increase demand, but these measures also discouraged plant expansion. Some of the causes of the depression which might have been mitigated by prompt central action in the 1920's were not. Little could be done about them after the event.

Results of the Measures

It seems to have been hoped that government expenditures would reverse the direction of the cycle, or prime the pump. In the middle of 1932, before much had been done in the direction of planned deficit spending, the cycle had already begun to reverse its direction. It has yet to be proved that such expenditures prime the pump in the sense of starting an upward spiral which, once under way, will thereafter continue on its own momentum without further increases in expenditures of the same kind. If we go back to the history of paper currency issues, reason can be found to believe that a vicious cycle of ever-increasing government expenditures would be necessary to maintain business activity by large-scale deficit spending; and that ever-increasing dependence on such expenditures would finally produce an uncontrollable situation for which no ready remedy would be possible.

The initial recovery from the extremes of depression seems to have been rather rapid, but because of the timing it appears likely that this was a natural rebound from an unusually sharp and severe decline, rather than the result of the public measures enacted. The extent to which the recovery proceeded was very moderate. The indices of industrial production were no higher in 1939 than in 1929. Production per capita, or the amount of goods and services available for distribution per person, did not show a net increase between these two dates. Measured realistically in available goods, rather than by speeches about social reforms, the actual gain in the average standard of living between 1929 and 1939 was nil. Before that period, the standard of living rarely failed to improve materially from decade to decade.

On the record the combination of contradictory measures did not prevent some business recovery, but the degree of recovery was subnormal.

Since our standard of living has been improved by wartime expansion of productive capacity and scientific developments which are a by-product of the war (even though we had a high degree of centralization during the war, and we had and still have heavy and steeply graduated taxes), it might be asked whether or not the war record does not suggest that a government-planned and financed peace can produce continuous and rapid material progress. The answer seems to be that such wartime benefits were obtained only at the cost of grave dislocations of industry which require ultimate readjustment, and only at the expense of a rate of increase in the national debt which cannot be indefinitely continued without producing still graver maladjustments. The war did give our businessmen and scientists an opportunity to do things that the gloomy atmosphere and small plant expansion of the 1930's did not permit. But the overall increase in our production from 1929 to the present peak does not seem to be abnormal, and the present level is dependent to some extent upon temporary demands arising from special shortages. Wartime experiences do not seem to indicate that the prewar record of the public measures to overcome depression is unrepresentative of their potentialities.

It was not until 1946, when central controls began to be relaxed, a budgetary surplus seemed in prospect, an end of rising taxes was in view, and shortages exerted their influence, that private expenditures for new plants and construction attained the level of 1929, or the volume of corporate securities offered for new money attained a level comparable even to the poorest years of the 1919-1929 era.

The Real Bases of Prosperity

Notwithstanding all the doubts and imponderables in economic analysis, and the inability of statistics and economic theory to give a concrete picture of most the details of business which make the wheels go around, there are certain statements which can be made with assurance. There can be no doubt that the intellectual processes of research, invention, mechanization, and improvement of merchandising techniques are the genes of industrial progress, and that capital expenditures are the means by which most of these intellectual advances are converted into productive capacity, and then, with the aid of labor, into goods and services. Employment, goods

and services, and the means to pay for them are created at the same time. Output per man, or the average standard of living, is increased. Without these processes progress is impossible. It is to be noted that a balance between the amount of goods and services produced and the means of paying for them cannot be maintained without constant growth of plant and sustained new capital expenditures. Otherwise the construction and equipment industries will be depressed, and this will affect other business.

To believe that a rapid rate of expenditures for new productive equipment means overproduction, bad business, and general unemployment, one must assume that such expenditures are made without foresight in anticipation of a market which will not exist. It is most unlikely that overexpansion of productive facilities in the 1920's was so excessive as to have been an important cause of the ensuing depression, if in fact it was to any extent a cause thereof. Even in the most active years additions to capacity were a relatively small part of total productive capacity. Plant expenditures almost never merely increase capacity. In varying degrees they also lower costs and widen markets. Unless a country is to stop growing, a considerable portion of its labor is certain to be occupied in the construction of plant and equipment. Not only long-term progress, but even cyclical activity is impossible if these sections are idle. Large new capital expenditures were unquestionably one of the most important causes of the fairly well-balanced and sustained activity of the 1920's. The discouraging effect of the measures of the 1930's upon new capital expenditures seems to have been a principal reason for their poor record.

Origin of the Measures of the 1930s and the Record at the Source

Most of our policies of the 1930's were of British origin, and formed a part of a world-wide tendency to greater centralization of power ranging from the milder forms of socialism, or tendencies thereto, to Fascism, Falangalism, Nazism, and Communism. Some of these "isms" were openly Marxian. Others declared themselves to be bitterly opposed to Marxism. Nevertheless, Marx's ideas seem to have been defensively or offensively an influence in all cases.

The British Empire had been largely built upon invention and mechanization which gave it preeminence in productive power and the means to sustain the world's largest navy. Subsequently the gradual centralization of private powers through mergers and cartelization seems to have reduced the opportunities for new ideas and new enterprises. The rate of industrial advance appears to have slackened. Britain's once preeminent position in productive power became less preeminent. Marxian influences, though never openly admitted to be Marxian, led to gradually increasing graduated tax penalties on individual business success, and to increasing supercentralization in the hands of government of control of business. The two world wars accelerated these trends, but they do not appear to have been solely the result of the wars. The failure sufficiently to encourage decentralization, research, invention and mechanization was not overcome by politico-social measures designed to give social safety, and to promote progress by central planning and subsidies, for these measures increased the penalties on success and expansion. The average standard of British living did not increase at the pre-centralization rate.

Measured in terms of output per capita, or the average standard of living; quality and quantity of food; medical services and supplies; availability of reliable news, information and knowledge; leisure time; amusements, including the radio and moving pictures; variety and quality of household and other conveniences; and freedom of choice, thought and speech; the American system, which has been relatively freer from the trends noted above, has produced results which are outstanding. Supercentralization under any name and in all places seems to have produced results in all these respects which range from the much inferior to the terrible. As we have seen, even the more moderate trend to centralization here in the 1930's produced subnormal results.

Once the process of supercentralization was started, it seems to have been cumulative. Excessive central planning, subsidies, and penalties on success appear to have produced conditions calling for more central planning, more subsidies, and more penalties on success, while constantly moving farther from the attainment of the desired objective. What began as socialistic developed into Fascist, Nazi, and Communist military dictatorships. Even in England, the government desires still more controls without yet having attained many of its objectives. It must be admitted that special war-induced conditions in Britain require some special controls temporarily, but it may be doubted that permanent supercentralization through nationalization of industry will be successful.

Material Progress Is not Without a Moral Basis

Many of the advantages of our system mentioned above may be considered to be materialistic. Although the acquisition of wealth has sometimes led to moral, physical and intellectual deterioration, there appears to be no good reason why it must do so. The invention and manufacture of smallpox vaccine; the development of processes for supplying pure water, milk, and food; the production of washing machines and the mold board plow, etc., have greatly eased the sufferings and burdens of others. Although not ordinarily thought of as charity, such processes implement the law of charity by improving the welfare of others.

Careful analysis indicates that the principal reason why most of the world and many people even in our own country do not have an abundance of material advantages is inability to produce an adequate supply at required prices. The increase in the supply of goods and services necessary even to provide all of own people with a standard of living which we may visualize as a desirable improvement is measurable in dollars only by a sum many times greater than the profits of all industry. Realistically the problem is to a far greater extent one of expanding production and productive power, than one of better division. Measures to relieve distress due to incapacity arising from unemployment, old age, or illness do not and cannot do the job. They are good, but they are only relief measures. Only more production can materially increase the average standard of living. The primary job is to accelerate the rate of industrial advance. There is, therefore, a moral basis for favoring accelerated industrial growth, and less moral basis for favoring apparently worthy measures which result in penalties on industrial growth than is commonly supposed.

The Desirable Social Organization

Although the innate character and abilities of the people, the abundance of natural resources and many other matters are very important, there is no doubt that social theories and the forms of social organization have had great influence on the moral, aesthetic and material standards of living.

Analysis seems to indicate that there are functions of society which cannot be administered otherwise than by central government: that there are others which are suitable for management by smaller political subdivisions; and that there are still others not suitable for any sort of governmental direction. Different degrees of centralization have been suitable to different circumstances. War has required more centralization than peace. A degree of flexibility and adaptability have been necessary.

But today activities are so numerous and technical that subdivision of powers and functions is more essential than ever. Proper organization seems to have required that functions be carried out by persons most capable of carrying them out well. That is to say:

(1) The political aspects of life should be administered primarily by politicians.
(2) Religion should be taught primarily by ministers.
(3) Science and medicine should be administered by scientists and doctors respectively.
(4) Business should be administered by business executives.
(5) Union affairs should be administered by labor leaders.
(6) A similar appropriate subdivision should occur at all points.

In order to know who are the most capable in any field, it has been necessary to have a degree of freedom from controls, so that men can rise to prominence on the basis of unrestricted competition with their fellows in the same field, or on the basis of selection by such fellows. These processes seem to have led to the best average level of selections. Since no man or limited group has been expert in all things, or has had the acquaintance necessary to select appointees well for all jobs, supercentralization appears to have run counter to certain limitations which are inherent in the nature of the world, or the natural law. This has led to less apt selections and administration.

Within each activity, public and private, appropriate systems of checks and balances, and an appropriate degree of democracy and freedom of competition have been necessary. It is sometimes forgotten that we have a degree of democracy even in the organization of our corporations, the number of stockholders often being larger than the number of employees, and the boards of directors subject to election by the stockholders. Democracy in the election of directors is often more a formality than a reality, because stockholders rarely show any initiative, and generally vote for the existing management which tends to become self-perpetuating, but the same is also true of union affairs. In both cases, a democratic basis exists which has some opportunity to become effective, if the voters are sufficiently aroused.

Further analysis seems to indicate that the above principles of subdivision have led to what might be called the doctrine of separation of the powers of various activities, organizations, and groups, and those of the state, including separation of the powers of:

(1) Church and State;
(2) Science and State;
(3) Art and State;
(4) Business and State;
(5) Labor organizations and State.

These separations of powers connote a balance of power between various groups and government, such that the State cannot run the churches, science, art, business, labor organizations and various other aspects and activities of life, but may merely regulate them within the minimum limits that are necessary: (1) to prevent any particular individual or grouping or institution from getting so much power that it can impinge upon the appropriate freedoms and rights of other individuals or groups, and (2) to maintain order and the national defense; and no single individual or grouping can dominate the State to his or its own advantage at the expense of the freedoms, rights and money of others. To make this system work at its best, political parties ought to be based on broader lines than the representation of narrow interests, such as business, agriculture, labor, or a particular church alone. Obviously one of the first duties of government is to maintain such separations and such a balance of power.

To date, the social organizations which have best carried out these principles seem to have the best records with respect to the materialistic advantages we have before mentioned, and with respect to non-materialistic advantages. Those which are chaotic, like China, and those which have the highest degrees of supercentralization, like Russia and Spain, are far behind. Even if we look at the nationalized railroads, telephones, and airplane factories of France, before or after war damage, we find them far inferior and their labor poorly paid. The record of Britain, in which centralization has gone far but not to the extreme, is unsatisfactory on the materialistic side.

Is the Trend to Less Satisfactory Social Organization Inevitable?

Because both Britain and to a lesser extent the United States have moved in the direction of ever greater centralization of private and public powers (except for the removal of some wartime restrictions) and ever increasing penalties on business growth, and because Communism has shown a rapid and long-continued growth (except for some decline in its influence in a few places recently), many have come to believe that these trends will inevitably continue, and that a growing influence of Marxian philosophy will lead inevitably to the establishment of Socialistic or Communistic states everywhere.

Both the Socialists and Communists, and the reformers who do not acknowledge that they are either, but, nevertheless, wish the government to run more activities on a subsidized basis at the expense of heavily graduated penalties on individual business success, thus starting the cumulative spiral that leads to Socialism and Communism, labor under two difficulties:

(1) Marx's dire picture of the capitalistic system is ancient and no longer true. Reforms have completely changed it. His predictions about it have not come to pass. Laborers have not worked longer and longer hours. They have not received a constantly diminishing part of the national income. Their opportunities to obtain knowledge and enjoy amusements have not decreased. On the contrary the lot of labor has tremendously improved over the years in all the capitalistic states which have maintained even in only a fairly satisfactory degree the kind of balance of powers hitherto described.

(2) The record of supercentralization under every name has ranged from relatively less satisfactory to terrible, over a period.

If social theories come to be judged by their fruits to date, it does not seem inevitable that we must become a supercentralized society.

Conclusion

If such records of history as are available to date come to be carefully analyzed and widely known, the American people should have a keener appreciation of the advantages of industrial advance and ever-increasing production. They should be not only willing to encourage these processes, but unwilling to have them penalized. Our attitude should become more expansionistic with respect to private industry.

We should recognize more clearly that the theory of separations and balances of powers throughout the social organization in both its private and public aspects is probably more modern, and certainly has been more productive of notable results than the theory and practice of supercentralization in any of its varied forms. This theory of separations and balances of powers has been the unique feature of American tradition, distinguishing the American way of life from all others. Its results have never been equaled.

By observing from the history of Britain in the period from 1890 to 1911 that a growth of bank reserves and bank deposits at an average rate more nearly in accord with the long-term rate of growth of business than in the past generation here, and the use of more frequent changes in money rates in both directions than in recent years here, to assist in the attainment of this objective, were accompanied by a more uniform rate of growth of production and a far more uniform rate of employment than have accompanied monetary developments here in the last generation, we could make changes of policy which would tend to mitigate depressions more succesfully. One may doubt that we are in a "new era" in which the historic influences of money rates are no longer operative.

By observing that most people are obliged by financial limitations to acquire or retain used homes and used cars, by ascertaining the costs of new housing, and by discovering the magnitude of the new housing likely to be demanded, we could discover that it is not only impractical, but probably impossible to supply new housing to any very large part of our population on a subsidized basis in a quantity approaching the needs. Unless new housing is supplied only to those who can afford to carry it, and the poorer elements occupy used housing from which such persons have moved, some persons receive special favors at the expense of others no better off. The ultimate effect is a vicious circle which is restrictive rather than expansionistic.

By reducing government expenditures to reduce the general overhead, and to maintain a budgetary surplus in all but considerably depressed periods, and by refraining from so greatly expanding government expenditures in such depressed periods as to imply heavier penalties on expansion and success, we could further mitigate depressions.

By so designing our systems for the relief of incapacity due to unemployment or other causes that they do not imply penalties on industrial advance, we could at once help to mitigate depressions and ease their pain.

By taking note of special conditions of unbalance which may appear, we might find it possible to devise actions which would be helpful in limited instances, without transgressing the theory of separation and balance of powers.

If the record and the possibilities become better known, it is not impossible that our social theories and organization will develop in accordance with the distinctive features of American tradition, and move away from Marxian tendencies rather than towards them. If this happens, it will encourage the maximum rate of growth of our production, tend to minimize temporary interruptions therein, and help to ease the pains of such interruptions. On the basis of existing conditions, an era of renewed industrial advance would then seem to be in prospect. If our forward progress is subject to irregularities, as progress has always been under all systems, the duration of depressions should be relatively short, and their pains relatively light.

Canada and the United States—Their Mutual Economic Problems

(Continued from first page)

is the best customer of Canada. Today, both countries are victims of world economic conditions. Our mutual trade is restricted because of the inability of other countries to pay for their purchases in monies that are acceptable or to provide us with raw materials and manufactured goods that we can purchase in exchange for the products we have to sell.

The So-Called Dollar Shortage

On Aug. 7, I pointed out in the "Commercial and Financial Chronicle," of New York, that this alleged dollar shortage was an erroneous claim, and unless clearly understood could create mischief. Instead of a dollar shortage, Canada has a surplus. However, the break-down of multilateral payments, resulting from inflation; depreciation of currencies in countries that buy from Canada, and failure of these countries to produce goods for export to pay for their imports, have created a condition whereby the system of multilateral payments, upon which the international trade of both Canada and the United States was built, cannot operate at the present time.

As proof of these conditions, in the period 1935 to 1939 the yearly average favorable balance of Canada in world trade exceeded $155 million, in spite of her average unfavorable balance of $372 million with the United States. For the war years, 1940-1945, Canada's average favorable balance in world payments was $948 million. In spite of her unfavorable balance with the United States of more than $600 million in 1946, Canada's favorable balance in world trade exceed $458 million.

In a world of sound currency and multilateral trade and payments, which would be the best for all of us, and the system upon which our international commerce developed, your country would be in need of seeking foreign capital investments in order to balance your exports against your imports. Canada, like the United States, is, therefore, a victim of soft currencies, bilateral trade restrictions and regulations restraining the free movement of goods and services. Nevertheless, this inability to collect from the soft currency countries and pay unfavorable balances to the United States is a real hardship to Canada at the present time.

In order to cope with this present shortage of dollars resulting from inflations causing the breakdown of multilateral payments throughout the world, Canada has found it necessary to restrict her purchases from the United States. While this temporarily may ease rising unfavorable balances due the United States, it will not solve the problem, but on the other hand, will restrict Canada's trade and reduce her standard of living. The correct solution, which would be beneficial to Canada and all other countries, is the restoration of sound convertible currencies and multilateral trade and payments in all the countries with which Canada and the United States trade.

Unfortunately, no two countries, such as Canada and the United States, have the power to restore sound economic and political conditions and dependable convertible currencies in other countries. When these countries with soft currencies will restore monies convertible into ours and increase their exports to pay for their imports, no one can say. It is possible that, under the economic forces of necessity, these countries will make rapid strides in returning to sound economic policies and that multilateral trade and payments will be possible again in a few years. But in the meantime we in the United States and Canada should do everything possible to cope with these conditions for the best interests of both countries.

Already Too Many Restrictions on Trade Between Us

While the unguarded line between the United States and Canada is an example to the world from the standpoint of peace, the economic walls that separate us and do harm to our mutual trade are high, far too high, for our own best interests. These complicated trade and financial restrictions are too lengthy for me to go into any detail here. But by way of examples, let me point out that all countries control exports and imports more-or-less today by various and devious means not usually known by these names.

The United States is no exception, nor is Canada. Just recently the United States reimposed export controls on some fifty iron and steel items, and already we have under export control some five hundred commodities.

Canada uses exchange control, import licenses, export licenses, import duties and preference trading with the sterling area. The United Kingdom employs exchange controls, export and import licenses, import duties covering trade and sterling area preferences. France employs all of these means of trade restrictions, including a gigantic system of government monopolies. Brazil and other South American countries have adopted all these schemes of trade control, including currency manipulation.

It is not necessary to go through the whole list of countries. These illustrations are enough to indicate that the return of freer multilateral trade and payments may have to wait upon many of these countries to make it possible for Canada to settle her accounts with the United States with her favorable balances from other countries. Once again we learn through experience the simple lesson of economics so well stated by that distinguished economist, Adam Smith, in the "Wealth of Nations," who, in 1776, said, "Whether the advantages which one country has over another be natural or acquired is, in this respect, of no consequence. As long as one country has those advantages, and the other wants them, it will always be more advantageous for the latter to buy of the former rather than to make."

It is too costly both for Canada and the United States to wait on the rest of the world to learn again the great profits of mutual exchange of goods and trade with convertible monies. Being powerless, however, to bring about a correction of these political and economic conditions in foreign countries for their benefit and our benefit, it seems to me urgent that the people of the United States and Canada take the necessary steps to correct insofar as possible within their powers, this dislocation of trade between the two countries resulting from these external conditions in the rest of the world.

Such tariffs and trade barriers as exist now between the United States and Canada were imposed when multilateral trade and payments made it possible to cancel our unfavorable balances with favorable balances.

Conditions have changed, and the return to freer trade and multilateral payments is not in sight. I, therefore, urge that the Government of the United States and the Government of Canada through proper officials, appoint a commission immediately to investigate present restrictions on trade between these two countries. The commission should be composed of practical businessmen and economists who have the statesmanship to represent the best interests of the two countries to investigate present restrictions on trade between these two countries. The investigation should be made with a view to removing such restrictions as would be beneficial to the people of both countries.

The United States buys from Canada nickel, copper, lead, zinc, paper, and a host of other products of which our supplies are inadequate. With the removal of the restrictions and tariffs upon importing into the United States many of these products, we could add to Canada's United States dollar supply many hundreds of millions of dollars. Moreover, American manufacturers and the American people would benefit by the reduced prices resulting from the removal of the tariffs. In addition, Canada has many tariffs against imports from the United States, which unnecessarily raise the price of these products to Canadian buyers. Many of these tariffs should be reduced or removed, and the Canadian consumer would be able to buy these products at lower prices thus raising the standard of living and increasing his income.

The reasons why these tariffs and trade restrictions were imposed many years ago are understandable. But times have changed. As pointed out, because of the conditions in other countries, the United States and Canada are more mutually dependent than ever before. Re-examination of these restrictions on trade between these two countries in light of present conditions is an urgent necessity.

I recommend this study and action upon these matters immediately, and not at some distant time in the future, when it may be too late because the damages of present maladjustment in trade between the two countries will have run their course.

Both Canada and the United States have tariffs on many important products which I know nothing about, but I do know something about the motor-car business. Canada has a rather high tariff against the importation of American motor vehicles. The amount of this tariff is paid by the purchaser and will vary with the price of the vehicle, but, roughly, will range from $400 to $800. While this tariff adds to the revenue of your country, it subtracts from the purchasing power of your people immediately. In addition, this tariff, like many other tariffs, is spent in a large part in maintaining the costly bureaus that administer the tariff.

I know it is believed that costs of production are higher in Canada because of your smaller market and that without a tariff lower-cost American-made production would reduce production and employment in Canada. These are all factors to consider, but motor vehicle production is necessarily a large scale business of mass production if costs and prices are to be kept as low as possible.

I believe Canadian economy would be better off with fewer producers and larger mass production at lower costs, which would enable Canada to participate in the world markets more than she does today. I am not suggesting that Canada remove all tariffs against the importation of motor vehicles immediately. I am suggesting that because of changed world conditions, and the benefits of mass production and lower costs, that tariffs imposed many years ago be re-examined from the standpoint of the best interests of your economy.

The Price of Gold

Inflation and the multiplicity of trade restrictions are the causes of Canada's ills in international trade. I know there is agitation to subsidize the miners and further reduce the value of your currency. For a long time I have advocated a free gold market with money convertible into gold. A free gold market, of course, is only one item in the general broad problem of free markets and multilateral trade and payments.

I believe in free markets with a minimum of restrictions, where everyone can have equal opportunity to bargain with his goods at the best advantage. It is my opinion that restricted markets, inflated currencies, bureaucracy, statism, communism, and all of these schemes of national planners, which restrict the individual in his freedom and initiative, are detrimental to the public welfare.

I mention the price of gold particularly because gold mining is a large business in Canada. Gold has served the world so long as a money better than any other money with which mankind has experimented, that it is important we understand the relation between money convertible into gold and the conversion of the currencies of one country into another. Without convertible currencies, freedom of trade and credit commitments are impossible.

For a long time, we in the United States have admired the soundness of Canadian banks. No one in Canada worries about the safety of his bank. In the United States our banking history is not something of which we can be too proud. In the past we have been faced with many bank failures. But sound banking is one thing, and sound currency and international trade another. While your banks are sound, your currency tends to depreciate in our markets because of your unfavorable balance of payment, resulting entirely from the default of soft-currency countries who are your customers.

This is a technical situation which will right itself as your customers regain ability to repay their obligations to you, or as the United States increases its purchases from Canada, offsetting your unfavorable balance. It is important, however, that your currency be convertible into gold and that we in the United States and other countries know what your currency is worth and exactly what a future credit will be worth when we receive payment.

With respect to the price of gold, my sympathies are definitely with those people who think they should sell their gold in a free market any place in the world for the price it will bring. The International Monetary Fund proposes to fix the rates of exchange. For France, for example, the rate of exchange as set by the Fund is at least 200% above the rate in the black market. These are the kind of bureaucratic regulations that create black markets. Of course, no one in Canada would sell gold to France at the rate set by the International Monetary Fund, but that is the only rate at which a Canadian should be permitted to sell gold to France at the present time, according to the Fund. France, of course, should restore her currencies to convertibility, but the Canadian gold miner is entitled to all he can get for his gold anywhere in the world, just as the producer of any other product.

Agriculture

Like the United States, Canada is still predominantly an agricultural country. It is your largest business. Your production of agricultural products far exceeds your consumption. You must sell these surplus products in the foreign markets. In normal times the United States is over-supplied with most of the agricultural products you have to sell. Your markets for these products are in countries that do not produce enough agricultural products for their needs. If these countries would return to sound convertible currencies and produce products for export to pay for their imports, Canada would have adequate funds to meet all of her adverse balances as she did in prewar years.

The Contribution of the Motor Vehicle to Our Modern Standard of Living

I am interested in agriculture and the farmer as much as in the manufacturer and the city worker. Motor vehicles have proved one of the most useful servants, producing wealth and well-being and raising the standard of living for all classes of people in Canada as well as in the United States and other countries.

The members of this association have a right to be proud of their occupation and their contribution to the welfare of every industry and every citizen. It would be difficult to state briefly the services of motor vehicles to both the farm and city worker. The motor car has made it possible for the city worker to live in the suburbs and still have the advantage of a job in the city and the city markets and services. The bus and the motor car have expanded the city markets.

While making it easy and inexpensive for the city dweller to get out in the country, the rural population, as a result of low-cost transportation, has the benefits of city or consolidated schools, churches, libraries, and markets. The cultural advantages of this inexpensive transportation have erased the story book differences between the city and the rural citizen. As a result of the motor car and good roads, everyone is now able to enjoy the finer things of life provided by the special advantages of both the city and the country.

The automobile really has changed the map. Its beneficial ramifications have reached every phase of human existence. It has been the cause of city expansion and new suburban developments. Recently, I saw in the United States an estimate that 54 thousand towns and cities, representing almost half the towns and cities of the country, had developed as a result of transportation furnished by the motor car. This has made it possible for workers to live outside of the city and for large manufacturing plants to move to the suburbs or to country districts.

Motor transportation has made it possible for the city department store to deliver goods to families many miles outside city limits. If only we could measure the time saved and the leisure resulting from improved transportation, its value would be reckoned in unbelievably large figures. The effect of the motor car upon the standard of living is unmeasurable, but undoubtedly large. The mobility furnished by the motor car has broadened the vision of the entire population. Greater richness of life is the reward.

We in this business can rest assured that we are performing a useful public service. It is our duty to furnish the best possible and most useful motor vehicles at the lowest cost. The buyers of these vehicles will use them for the production of goods and services enriching the life of all of us.

The Railroad Security Outlook

(Continued from page 12)

though a high degree of inflation is contrary to the best interests of the railroads. But I'm not here to talk about inflation and I'd better drop the subject.

If, apart from a bull market engendered by inflation psychology, the stage does not appear set for a normal type bull market, why shouldn't one then expect continuation of the bear market that began last year. Why shouldn't one expect materially lower prices for railroad bonds and stocks other than those relatively few possessed of investment characteristics? Why shouldn't one expect a return of prices to the extremely low levels prevailing in periods such as the early and late 1930's?

The answer, I should say, is that there are too many features of strength in the railroad picture and the general economic picture to support such a view.

In the first place, there is plenty of evidence to support the theory that, on average, for years ahead this country will be busily engaged in the production of all of the many items that make up railroad traffic. Even the most pessimistically inclined agree that, after a setback, industrial production will continue on a high plateau for years to come. This expectation, which I think is well founded, makes it impossible to suppose that, in a generally favorable environment of relatively stables prices and wages, railroad wages and other costs will not be in reasonable balance. With plenty of freight to move, the railroads should be prosperous.

This view, which admittedly avoids the question of the nearer term outlook, should be a sustaining force in any period of general unsettlement that may be encountered as an aftermath to the current inflationary trends.

Rails in Strong Financial Condition

In the railroads themselves are many elements of strength. One of the most important features of strength is the current tremendously strong financial position. Except in 1945 and 1946, railroads never in their history had cash and working capital as large as today. At the end of June, Class I railroads had cash of $1.9 billions and working capital of $1.8 billions. After World War I, that is in 1920, they had $400 millions cash, $600 millions working capital. In 1929 they had $700 millions cash and $200 millions working capital. Cash of $1.9 billions is a lot of money. It's between four and five times annual fixed charges and the companies that have it can't be threatened with serious financial difficulties for many years.

Practically all railroads have greatly reduced debt and fixed charges—by purchase of debt, payment of maturing debt without financing, by refunding high coupon with lower coupon bonds and through reorganization. After the relatively few roads that are still in bankruptcy have been reorganized, annual fixed charges of Class I railroads will be only about $400 millions contrasted with close to $700 millions in 1929. Highly important, particularly from the standpoint of investor reaction to the railroad industry as a whole and its securities, is the fact that the perennially bankrupt railroads have had their fixed interest debt and fixed charges drastically slashed as in no previous bankruptcy period. Seaboard had its fixed charges reduced from more than $11 millions a year to about $1.7 millions. The reorganization plan for the Rock Island calls for fixed charges of about $1.5 millions as against over $14 millions. North Western's fixed charges are now a little more than $2 millions a year whereas they used to be more than $16 millions. Milwaukee's fixed charges are about $3½ millions a year compared with about $15 millions prior to the last reorganization and over $20 millions prior to the previous reorganization.

As a result, generally speaking, the railroad industry can stay solvent even if it earns little or nothing for a protracted period of time. In a period of stress, this could prove a tremendously important factor from the standpoint of price. It would tend to assure the security holder that temporarily bad earnings would not deprive him, through bankruptcy, of participating fully in a future period of better earnings.

Good Maintenance of Rails

A feature of strength to which no great attention has so far been given, as far as I know, has to do with the present relation of maintenance expenditures to fixed charges. Maintenance expeditures are one of the few cost items over which a railroad company has a good measure of control. Such expenditures are usually raised considerably when traffic, revenues and earnings are large and contracted when traffic, revenues and earnings are small. It was this ability to contract maintenance expenditures that kept many railroad companies solvent during the 1930's.

Maintenance expenditures are now very much larger than they used to be, in part due to heavier traffic, in part due to higher wages and higher costs of materials and supplies, and in part due to a desire of management to lay on fat. Using Southern Pacific as an illustration, we find that maintenance expenditures (excluding depreciation charges) in 1929 were about $82 million; fixed charges were about $28 million. Last year, Southern Pacific's maintenance expenditures were about $159 million. Its fixed charges are now less than $20 million. On the basis of the 1929 figures just given, it required a 34% reduction in maintenance expenditures to reduce them by an amount equal to fixed charges. On the basis of current figures it would require a reduction of only 12%.

Stated differently — between 1929 and 1932, Southern Pacific's maintenance expenditures were reduced from $82 million to $35 million—a reduction of $46 million or about 57%. This reduction was about 1.7 times 1932 fixed charges of somewhat over $30 million. A similar 57% reduction in 1946 maintenance expenditures would amount to about $90 million or about four and one half times current annual fixed charges.

Railroads now depreciate way and structures apart from ballast, rails and ties. Prior to the early 1940's, about the only depreciation charges were on rolling stock. As a result, depreciation charges are today larger than they used to be. For the 12 months ended June 30, 1947, Class I Railroads charged their income accounts with depreciation amounting to about $350 million. This is about $200 million a year more than in the early 1920's, and about $150 million more a year than in the early 1930's. Moreover, current annual depreciation charges of about $350 million are within striking distance of the annual fixed charges of about $400 million that the Class I Railroads will have when the railroads still in bankruptcy emerge therefrom.

The overall figures are no indication of how large depreciation charges now are in relation to fixed charges in the case of individual railroads. Last year, Chicago & North Western had depreciation charges of $9.6 million compared with fixed charges of $2.3 million. Chicago, Rock Island & Pacific had depreciation charges of $6.6 million in relation to the $1.5 million fixed charges proposed by the reorganization plan. Frisco had $4.5 million depreciation charges compared with current annual fixed charges of around $3 million. Milwaukee last year had depreciation charges of $10.9 million in contrast to fixed charges of $3.5 million. Of course, if depreciation charges are considered a factor of safety as they are here, consideration ought to be given equipment obligation maturities. In the cases just mentioned such maturities are exceeded by wide margins by depreciation charges. This is true also of most other companies.

Prices of Rail Issues Are Low

Another aspect of the railroad securities situation to which attention may well be drawn is the relatively low price at which many companies are selling on the basis of the market prices of all of their stocks and bonds. I recently had occasion to figure up the market value of all of the securities of the Seaboard Air Line Railway Company which was reorganized last year. I found that the equipment obligations and first mortgage fixed interest bonds were selling for about $45 million; the income bonds for about $34 millions; preferred stock for about $7 million; and the common stock for about $14 million; a total of about $100 million. At the end of last year, the company had net current assets of $41 million and capital and maintenance funds of about $26 million; a total of about $67 millions. On the basis of the market value of all of its securities, all assets other than the net current assets and the two cash funds just mentioned were valued at about $33 million. This is but a fraction of what the equipment alone is worth, not to mention the 4,000 miles of road and other facilities owned.

Of course, it has been a long time since railroad security prices bore any close relationship to the liquid and fixed assets represented thereby. However, it should be reassuring to the various Seaboard Air Line security holders to know that their securities are selling for prices that represent but a small fraction of what it would cost to replace the property represented.

Somewhat along the same lines, it may be of value to compare earnings retained in various companies in the past 10 years with the market values of their bonds and stocks. To cite a few instances, Atchison, Topeka & Santa Fe in the past 10 years retained $176 million of earnings in the company. If to this figure be added 80% of amortization charges—on the theory that emergency defense facilities, consisting chiefly of standard equipment which has been fully written off, have experienced depreciation of no more than 20%—we arrive at a figure of retained earnings of $259 million. This compares with funded debt of $229 million at the end of 1946 and on the common stock alone is the equivalent of $106 per share compared with a market price of around $80 per share. On the same basis, we find Illinois Central's last 10 years retained earnings plus 80% of amortization charges, the equivalent of $84 per share of common stock compared with a price around $25. In the case of Northern Pacific, the figure is about $42 per share compared with a price of $19; for Southern Pacific, about $82 per share compared with the price of the stock around $42. For Kansas City Southern, the figure is about $60 per share, i.e., about three times the price of the stock.

Summing up—it can readily be seen that the railroad rough diamond has many facets. That there are features of weakness is undeniable. But there are also important features of strength. In the longer run, the latter will presumably dictate the price pattern, but this may not come about until some of the current unsatisfactory pressures have been removed. This will not happen overnight. Until they have been removed it would seem advisable not to get too bullish on market strength and not to get too bearish on market weakness. I think that we are in a major adjustment period; that later on, when this period is viewed from hindsight, it may not show any long trend of prices either up or down. Moreover, I doubt that it would be possible to predict the time or the extent of the several up and down movements that lie ahead—even if, through a crystal ball, it were possible to see in advance every single development affecting the prices of railroad securities. Just take one look at a stock or speculative bond chart covering the periods 1932-1934 and 1938-1941 and see if you want to try.

Long-term bullishness on the railroads appears advisable but I'd tend to restrict long-term purchases to periods of gloom. For the balance of the time an opportunistic trading attitude seems advisable. Efforts may well be concentrated on switches since, despite the price adjustments of the past year, many railroad issues still seem under or overvalued in relation to others.

European Aid and Marshall Plan

(Continued from page 9)

are to be corrected, so our aid can produce effective results, we also will have to export sound economic and financial policies.

We would do well to remember that one of the requirements of sound help to another, whether to an individual, a business, or a nation, is to make certain everything the petitioner can and should do to put his own house in order is actually and promptly done.

Whether we want it or not, history appears to have delegated leadership to us. We are the greatest power in the world today and can be its stabilizing factor. We can accept this responsibility, or forfeit it to some other nation. If we should do the latter, undoubtedly we will forfeit to the world's most aggressive and unstabilizing factor—Soviet Russia.

When you think of this possibility, remember that west of the line the Soviets drew so clearly at the Paris Conference, Europe has a population of over 200 million people. The industrial production and the experienced production manpower of the Continent is in this area. It does not lie to the east. If this combination of manpower and production should become a contributor to Soviet Russia, there is the possibility of a center of power being created which easily could become a menace to our future security as a nation.

World peace, and what is left of democracy and free enterprise in Europe, needs the active and aggressive support of the United States. We can not have a real peace while the European people are afraid that militant and unscrupulous Communist minorities will force themselves on majorities, which have given every evidence of a wish to be free and democratic. Existing freedoms of the individual and enterprise need a strengthening and supporting hand, if they are to have a continued and renewed life. And, we can not have a continuing prosperity in this country with a large part of the rest of the world flat on its back, economically and financially.

While two years after V-J Day the prospects of Europe appear worse than at that time, actually there have been improvement. But, in this time, the penalties of the war also have become more and more apparent. The problems are much more difficult of solution and of much longer term than they have appeared from here. Estimates of the rehabilitation job to be done have been far too low. Where we thought in terms of a few years, it is now apparent that full recovery in Europe is more likely to be a matter of a decade or more.

European Recovery Slow

In the United States we made a quick and remarkable recovery, and we have made the mistake of assuming these European nations could accomplish a change in some degree similar to our own. This could not be done because of too much destruction and loss; too many shortages of every kind; too great a physical, moral, and mental fatigue; and an extreme dislocation of all the normal processes of personal and national living.

These are briefly expressed but strong reasons for using additional resources of the United States in aiding Europe. If the cost is high, we can not overlook the cost of failing to do it. And the fact that there are substantial problems and obstacles to be faced, at home and abroad, should continue to stimulate our effort to find sound and effective solutions.

There is no doubt that a constructive and unselfish world leadership is greatly needed. If we take this part, we need make no excuses for what we do. We know we have no desire to acquire selfishly or to dominate any other nation, and we know that already we have given more of our blood and wealth to the world for no return than any or all other nations. These are forceful reasons why—if American economic power is used for purposes of justice, freedom, and constructive assistance to others—and to oppose the economic and political slavery of totalitarian and police States—it will benefit the world situation.

No matter where you look abroad, you see nations which want the food, goods, and credit of this country. This assistance has to come from its only possible course — the democratic free enterprise system of these United States — from the production, wealth, and resources of the free people of the United States. Freedom and private enterprise may be failing everywhere else in the world—but are not failing here. The reason is—the American way of life—which we must not only protect and improve—but continue to develop as an instrument of world progress and stability.

With Conrad, Bruce & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Francis O. Baker has become affiliated with Conrad, Bruce & Co., 530 West Sixth Street. He was previously with Hope & Co.

With Morton Seidel

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Stephen J. Kline has become connected with Morton Seidel & Co., 458 South Spring Street.

Joins John M. Barbour Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—Joseph F. Jewett has become affiliated with John M. Barbour & Co., Citizens Bank Building.

With Shader-Winkler Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Edwin B. Feys is with Shader-Winkler Co., Penobscot Building, members of the Detroit Stock Exchange.

Open End Investment Funds—The Most Significant Development in the Last Fifty Years

(Continued from page 17)

trustee, supervises the investment program in view of the changing conditions and purpose of the fund. Another organization handles the distribution of the shares.

How to Buy

Daily at the close of the New York Stock Exchange and often twice daily at stated times (procedure varies with individual funds), the "asset value" per share is computed. This is simply the total market value of all the securities owned by the fund plus all cash divided by the total number of shares outstanding. The "offering price" at which an investor may purchase the shares is obtained by adding to the "asset value" the cost of distribution and broker's commissions. These last items are definitely stated in the prospectus of the company and are calculated on a per share basis from stated percentages of asset value. The shares of any qualified fund may be purchased through a brokerage firm.

How to Sell

In general the funds guarantee to repurchase any number of outstanding shares at any time they are offered for redemption. This may be transacted directly by the company's transfer agent or through a brokerage firm. Generally, when the shares are redeemed **no commission** is charged the seller—he receives the stated "asset value" or the so-called "bid" price as quoted in the newspapers.

Where Quoted

All large newspapers carry daily quotations of the funds. The "offering price" and "bid price" as explained above are listed. Because of the redemption agreement the "open end" funds are not listed on the national exchanges, but this in no manner diminished the marketability of the shares, for they are redeemed upon notice.

What Are the Advantages

Professional Investment Counsel for Any Investor—First of all, the investor himself maintains the right to buy or sell at any time. Upon purchasing an investment fund he simply delegates to the fund the day to day, week to week or year to year management. The men that staff these managements are by far the most competent in the country. Years upon years of experience is centered in each group. Available are the latest and most complete statistics on each industry and each company therein. Field men are sent directly to a company and its officers for first-hand information. Decisions are rendered only after long study, consultation and deliberation—and are not made by one, but many trained minds. Such as these are their decisions:

(a) Determination of the near-term and long-term trends in the economic cycle and in the stock and bond markets.

(b) Selection of industries with maximum appreciation possibilities and minimum risks; allocation of funds to these industries.

(c) Selection of individual companies within these industries.

(d) Determination of the price at which an investment is worth buying.

(e) Construction of a portfolio of investments that will balance the risk and opportunity factors in the market.

Mr. A. S. Dewing in his famed "The Financial Policy of Corporations" points out the thoughtlessness that is all too common among investors in these words: ". . . The school teacher, clergyman, lawyer, dry goods merchant, and shoe manufacturer know enough about their respective businesses to feel assured that the ordinary uninitiated could not succeed without long and specialized training. Yet these same men stand ready to embark on one of the most intricate businesses—that of investment — requiring perhaps the most extensive and far-reaching specialized knowledge of any profession or business. . . ."

It is the realization of these simple truths that has caused many of the more thoughtful investors to use investment funds.

"Are All Your Eggs in One Basket?—When you own shares of any business enterprise you are in effect a part owner of that enterprise. The company is "working" for you. In an investment fund your investment money is put to work in many different individual companies and in a wide variety of industries. Spreading investment ownership among many enterprises is a time-tested investment principle employed to decrease risk to capital. When no more than a small percentage of funds is invested an any one security, a loss in that security would have a proportionately small effect on the total value of the fund; moreover, profits in securities of other companies might compensate for such a loss or result in a net gain. The diversification offered in investment funds is very great, in fact, there are over a hundred different securities in many of the funds. In conclusion, diversification of investments is offered in companies, industries and types of securities—it is wise to remember the old common proverb, "Don't put all your eggs in one basket."

Government Regulation—Since 1940 all investment companies are required to be registered as such with the Securities & Exchange Commission and to keep at all times on file with the Commission, as a public record, a full statement of their fundamental policies. Once filed, such policies **cannot** be changed or deviated from except with the approval of the shareholders. Further, all investment companies are subject to the Federal Investment Company Act of 1940 and the rules and regulations promulgated under the authority of such Act by the Securities and Exchange Commission. Under the provisions of Supplement Q of the Internal Revenue Act the investment companies are permitted to deduct all disbursed dividends derived from capital gains and/or income in computing Federal income taxes. The companies are not permitted to sell short or buy on margin. Most of the investment companies' charters set up specified restrictions such as that no more than 10% of all outstanding stock of any one corporation may be owned and that no more than 5% of the total assets of the fund may be invested in any one corporation's securities. These Federal regulations and the restrictions set up by the funds themselves lend a high degree of safety to the shareholder's investment.

Convenience—Let us suppose for example that an investor owns 50 individual securities. During the course of the year—provided all are paying dividends—he will probably receive 200 dividend checks and in addition at least one or more proxies from each individual company. This entails the returning of 50 proxies and the depositing of 200 checks, not to take into consideration the bookkeeping that is necessary. Consider the investor who has invested his capital in one investment fund that contains in its portfolio perhaps as many as 75 different securities. In comparison, he would receive **four** dividend checks during the year and perhaps one proxy. Surely this simplicity would appeal to the busy businessman and the individual who dislikes figures.

Safety—The wide diversification offered by the investment company fund is one of the oldest and truest means of protecting principal. Safety is further enhanced by government regulation and the continuous supervision by management.

Income—An investor will ask, "What assurance have I of continued dividends?" The amount of dividends may vary but their continuity is reasonably assured because of the diversification. Many of the funds hold in their portfolios bonds, preferred and common stocks of America's leading corporations; therefore, dividends can be expected to be more stable especially in times of depression, than they would be if they were dependent upon only a limited number of sources. To our knowledge, there is **no case** on record of a fund, which places emphasis on investing for income, that **has passed a dividend.**

"When You Need Money Most"—Let us consider the investor who holds but must sell several thousand shares of an individual security. It is very rare indeed that the circumstances are such that a large block of stock can be sold in a short space of time without receiving successively lower prices for the stock. In a rapidly declining market, prices have been known to drop many points. Because the funds will repurchase upon notice **any number** of shares at certain specified prices, B shareholders of such funds need have little worry in regard to the liquidity or marketability of their holdings.

Information—It has been the policy of the funds to report to their shareholders complete and full information at all times. Notification of portfolio changes, dividends and the source of same, complete lists of securities held in the portfolio, tax factors, etc., are all available in easy-to-understand reports.

Upon rechecking the above advantages all that can be said in summation is that it is a rare investment that offers so much.

Who Uses the Funds?

Today there are nearly **one million** shareholders in investment funds having assets in excess of **$2 billion.**

Small Investor—The investment funds provide at low cost a well-rounded and competently managed investment program that can be added to or reduced in size easily.

Large Investors—Many large investors place a certain portion of their money under outside management as a hedge against their own judgment, while others wish to reduce time-consuming detail in order to give more attention to their own businesses. The capital gains dividends are especially important to individuals in large tax brackets.

Professional Man—The doctor, dentist, lawyer, etc., find the investment funds most convenient and satisfactory because of the feeling of security emanating from knowing that the investment is being continuously managed by highly competent individuals who devote their full time to the job.

Institutions—Colleges, hospitals, churches, endowment funds, fraternities, fiduciaries and charities are increasingly using investment funds.

Individual Trustees—While there are no clear-cut legal precedents for or against trustees investing in investment fund shares in states following the "Prudent Man" rule, there is a broad acceptance and use of the more conservative fund shares for such purposes. One fund reports a substantial percentage of its shares are owned by trust accounts.

Corporations—Many industrial corporations and others list security portfolios among their assets. Where the considerations are long-term, the use of funds in place of bonds insures greater income to the corporation because of the tax laws. For example, a corporation receiving $10,000 income from bond interest **retains** only $6,200 after paying a 38% tax, while the same income from investment fund dividends paid from income would **produce** $9,340 after-tax income. The tax feature is important; whereas interest from bond investments are taxed at the regular corporation rates, dividends from income receive an 85% credit, leaving only 15% of the income taxable. As is standard for tax purposes, capital gains dividends are treated as capital gains by the receiving corporation.

Bequests—Present tax laws on estates and gifts make it highly advantageous to the wealthy individual to distribute portions of his estate prior to his decease. The taxable estate of an individual may be reduced substantially by the giving, free of gift taxes, up to $3,000 per year to an unlimited number of donees. These donations are in addition to the lifetime gift tax exemption of $30,000. A wise program of distributing portions of an estate **lowers** the **ultimate estate tax** and is beneficial currently from an income tax standpoint. The most practical medium is the use of conservative investment funds so that continuity of management, safety and income are assured, particularly when the recipient is untrained in investing.

Dividends

In order to come under the tax advantages of a regulated investment company, it is necessary to distribute to the shareholders 90% of all income received and capital gains realized by the fund. Therefore, most funds pay quarterly dividends from earned income plus dividends from realized capital gains or excess security profits—usually the latter may be received in cash or stock at asset value at the shareholder's option. This is an advantageous way to add to one's holdings since no commission or other fees are charged when additional shares are elected.

Investment Objectives

The various Investment Funds are designed to meet different investment objectives—some portfolios contain only common stocks, while others only bonds or preferred stocks—and there are gradations within the type of security held, that is, there are high-grade, medium-grade, low-grade and balanced bond funds; appreciation preferreds or high-grade preferreds; income-producing, speculative or low-priced common stocks. Some funds hold securities in only one industry—chemicals, rails, metals, etc. One fund is a leverage fund because its charter permits borrowing outside capital; another fund, very volatile in nature, is composed of only high-leverage closed end funds. The "balanced fund" is composed of common stocks for growth, preferred stocks for income and bonds for safety of principal, and the management moves from aggressive to defensive securities as it deems the current market trend and business outlook justify. Therefore, the investor can choose a fund or funds to meet any of his investment objectives.

Dollar Averaging

Dollar averaging is a plan whereby a certain number of dollars is invested at regular intervals (in contrast to buying a definite number of shares). The vehicle best suited is a security of more or less volatile character. The plan results in a per share cost **below** the average of the prices at which the purchases were made, or in other words, fewer shares are acquired at high prices and more shares at low prices. It is necessary that the program be continued without interruption to attain the best results. For example, if investments of $100 each month were made from April 1, 1940 to March 1, 1946 in a certain leverage fund, a portfolio valued at over $20,000 would have been held as compared with the total investment of $7,200. During this period the price fluctuated from $1.89 to $7.87 per share—the average cost per share was $2.48.

Cost for Equal Diversification

About the only objection to the purchase of investment funds is the payment of the difference between the bid price and the offering price—sometimes called the "load." This initial fee paid upon purchasing the shares of a fund averages a little more than 8½%—in most cases upon liquidation no fee or commission is charged. It is difficult to make a comparison to an individual's program because of the impracticability of an average investor diversifying his holdings as broadly. To diversify $5,000 in 50 listed securities would cost (on an average cost of $25 share) $278 to buy and $286 to sell—a total of $564 or 11.28%. A comparison of this 11.28% to the 8½% for investment funds is not justifiable in all respects for no investor would attempt such diversification with only $5,000—but it is attainable by use of the funds. The yearly management fee averages less than 1% per year of the value of the shareholder's investment. The cost of private investment counsel is prohibitive to the average investor and this fee charged for continuous management by the funds is negligible in the light of their performance as recorded below.

"Food for Thought"

The 1946 market performance of the conservatively Balanced Funds was most impressive compared with the stock market according to the investment company expert, Arthur Wisenberger, who made the following comparisons and accounts.

While the stock market, as indicated by Standard & Poor's 90 Stock Index, declined 7.9% and 41 representative Common Stock Funds declined 3.7%, the conservative Balanced Funds declined on the average only **one-half of 1%.** The results indicate that 1946 was the fourth consecutive year that the investment funds on the average have **out-performed** the stock market.

"The investment companies and everyone connected with them can be justifiably proud of both the individual company records and the overall average for 1946. **These records add further proof to our long-held opinion that well managed investment trusts can invest money more profitably than the large majority of individuals can do for themselves.** It is unfortunate that there is no method of measuring composite results of the individual operations, for a glance at the 40-65% declines in many an individual stock issue strongly suggests that few individuals do as well as the market averages in the long run. The fifth consecutive record set for sales of open-end companies' shares during 1946 (a year when trading volume on the New York Stock Exchange declined) is strong evidence that individual

investors are becoming aware of this in ever-increasing numbers."

For six months ending June 30, 1947 net sales for 46 representative investment funds increased $67.7 million. This achievement was accomplished despite the fact that trading on the New York Stock Exchange declined 35% as compared with the like 1946 period.

For the two year period from June 30, 1945 to June 30, 1947 the Dow-Jones Composite Average began and ended at levels nearly alike—63.98 to 62.56. This should afford an excellent opportunity for comparison — and the results: Three common stock funds showed gains in net asset value per share of 20.1%, 19.8% and 16%; three balanced funds showed gains of 16%, 14.1% and 12.5%. Looking at the declining market from the 1946 peak to Sept. 19, 1946 the Dow-Jones Industrial declined 21.19%, the Rails 31.08% and the Composite Averages 23.94%—five representative Balanced Funds declined 15.13%, 15.04%, 20.76%, 15.68% and 14.15% respectively. The records speak well for the funds.

Caution!

Do not expect investment funds to do the impossible over a short period, but recognize them for what they are—a good long term investment medium combining the investment qualities of **Safety, Income, Appreciation** and **Marketability** to a degree to be found in few, if any, other investments. A single fund is seldom the answer to an investor's problem. Three to five are usually more desirable.

And So

We have tried to present the whole picture of an investment vehicle that has shown remarkable progress and is assuming a role in the American life that is affecting and will continue to affect our economic, political and social life—Economically, by providing a more constant and even flow of capital into the equity markets and a tremendous reservoir of wisely directed capital that tends to smooth out the swings of the business cycle and thereby to stabilize employment; Politically, by providing a medium for the man of average means to take part in ownership of American industry, thereby spreading ownership to a broader political base; and Socially, by producing results which make it attractive to save and invest, the funds are increasing at the family level both social security and the standing of living.

Need More Be Said

We are indebted to Watling, Lerchen & Co. in particular, and to all the investment companies, in general, as sources of our information. While we believe the information is accurate, we do not guarantee it. All opinions, unless otherwise noted, are our own.

Morse Discusses Controls for Distribution Costs

A special meeting of the Brooklyn Chapter, National Association of Cost Accountants was held on Oct. 29, 1947 at Michel's Restaurant, Brooklyn, New York.

Mr. Raymond C. Morse, President of the Brooklyn Chapter presided at the meeting and the subject of his talk was "Effective Controls for Distribution Costs" which covers a problem that has plagued most companies for many years because of its many aspects and somewhat intangible nature.

Mr. Morse is Assistant Comptroller of The American Machine & Foundry Company of Brooklyn, New York.

The State of Trade and Industry

(Continued from page 5)

try to Europe. This influence on the eastern scrap markets is similar to that exerted on the grain markets by government purchases.

Of more immediate importance to steelmakers is the small amount of free scrap on which national quotations are based. Scrap material from manufacturing plants which used to pass through dealers and brokers and be a stabilizing influence on the free market is now earmarked for steel companies and shipped direct to their plants. The situation has made the total supply of dealer and broker scrap exceedingly thin compared with the total scrap shipped into steel plants. Since earmarked scrap is usually priced on the basis of current quotations on the free scrap market.

This condition, states "The Iron Age," has been further aggravated by the ease with which representatives of those companies who are selling large quantities of ingots for conversion purposes bid high prices on markets throughout the country.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 97.0% of capacity for the week beginning Oct. 27, 1947, the highest rate since the week of June 19, 1944. This compares with 97.1% one week ago, 94.4% one month ago and 89.4% one year ago. Current operations represent a decrease of 0.1 point or 0.1% from the preceding week.

The week's operating rate is equivalent to 1,697,400 tons of steel ingots and castings compared to 1,699,200 tons one week ago, 1,651,900 tons one month ago and 1,575,600 tons one year ago.

RAILROAD FREIGHT LOADINGS A TRIFLE LOWER IN LATEST WWEK

Loadings for the latest week, Oct. 18, 1947, totaled 954,249 cars, according to the Association of American Railroads. This was a decrease of 2,613 cars, or 0.3% below the preceding week. It was, however, an increase of 22,483 cars, or 2.4% above the corresponding week in 1946 and an increase of 180,442 cars, or 23.3% above the same week in 1945.

RAILROAD FREIGHT REVENUE FOR SEPTEMBER ESTIMATED AT 13.3% ABOVE 1946

Based on advance reports from 82 Class I railroads, whose revenues represent 81.4% of total operating revenues, the Association of American Railroads estimated that railroad operating revenues in September, 1947, increased 8.6% above the same month in 1946. The foregoing estimate covers only operating revenues and does not touch upon the trends in operating expenses, taxes or final income results. In the like period of 1946 estimated freight revenue was 13.3% under that of the current period, but estimated passenger revenues was 16% higher.

ELECTRIC OUTPUT 7.9% HIGHER THAN A YEAR AGO

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 25, 1947 was 4,963,816,000 kwh., according to the Edison Electric Institute. This compares with 4,946,090,000 kwh in the preceding week, and was 7.9% in excess of the 4,601,767,000 kwh. produced in the corresponding week of last year.

AUTOMOTIVE PRODUCTION RISES IN LATEST WEEK—PRICE INCREASES OF 5% FORECAST

The increasing trend toward higher material costs and the high price of tooling may result in price increases of 1948 car models by as much as 5% above prevailing levels, according to C. E. Wilson, President of General Motors Corp.

With respect to the question of how soon the return to a more normal delivery waiting period will occur, Harlow H. Curtice, General Manager of General Motors' Buick Division, writing for the November issue of "The Buick Magazine," states as his opinion, that it will be 1950 or 1951 at the earliest before demand and supply will be in close enough balance to make this possible.

Production in the United States and Canada during the past week totaled 105,587 units, compared with a revised figure of 89,180 units in the previous week and 87,680 units in the comparable period of last year, states Ward's. In the corresponding 1941 week the figure was 91,855 units.

Last week's output comprised 99,330 vehicles made in this country and 6,257 in Canada. The U. S. total included 73,105 cars and 26,225 trucks, while the Dominion figure showed 4,130 cars and 2,127 trucks.

NEW BUSINESS INCORPORATIONS UP SLIGHTLY IN SEPTEMBER

There was a rather general but small rise in the rate of new business incorporations during September although the total number of charters issued throughout the country last month remained substantially below that for the corresponding month a year ago. Numbering 8,561, charterings for September increased 6.3% above the August figure at 8,055, but they were 10.4% fewer than in the like 1946 month with 9,551, according to the latest survey by Dun & Bradstreet, Inc.

BUSINESS FAILURES CONTINUE UPTREND

Increasing in the week ending Oct. 23, commercial and industrial failures rose to 81, reports Dun & Bradstreet, Inc. This represented only a mild advance from the preceding week's total of 75, but a sharp rise from the 1946 level when only 33 concerns failed in the comparable week. Despite the fact that businesses failing were 2½ times as numerous as a year ago, they fell far short of the prewar total of 300 which occurred in the corresponding week of 1939.

All of the week's increase was concentrated in failures involving liabilities of $5,000 or more. Up from 60 to 70, concerns failing in this size group outnumbered by a wide margin the 30 reported last year.

Wholesaling, construction, and commercial service accounted entirely for the week's rise in failures. The number of wholesalers failing increased from 10 to 18, the highest total for this trade in any week since May. Construction and commercial service failures, despite gains from the previous week's level, remained below 10, totaling 9 and 6 respectively.

FOOD PRICE INDEX HIGHER MODERATELY IN LATEST WEEK

Continued strength in basic foods resulted in a further moderate rise in the Dun & Bradstreet wholesale food price index, which advanced to $6.90 on Oct. 21, from $6.85 a week earlier. The current figure represents a gain of 8.8% over the $6.34 recorded a year ago, and is 68.3% above the $4.10 for the like 1945 date.

DAILY WHOLESALE COMMODITY PRICE INDEX SHARPLY HIGHER IN LATEST WEEK

Further advances in some key commodities pushed the Dun & Bradstreet daily wholesale commodity price index sharply upward during the past week. The index figure reached a new record high level of 291.65 on Oct. 21. This compared with 285.54 a week earlier, and with 236.73 at this time a year ago. The latest index reflects a rise of 4.1% over the month's low of 280.24 touched on Oct. 6.

While trade volume on the Chicago Board of Trade continued to decline, all grain prices scored further substantial advances last week. Wheat was the leader as all future deliveries went to new high ground for the season, while the December contract and the cash article rose to new high levels for 30 years. Government buying of cash wheat and flour was a dominant factor in the rise.

Other bullish influences included continued unfavorable weather conditions in the Winter wheat belt, and an advance of from 75 to 80 cents per hundredweight in PMA flour buying prices. Domestic flour bookings remained on a small scale with strength in wheat tending to restrict sales.

Corn prices averaged higher, reflecting comparatively light country offerings of both old and new corn. Demand for lard was only fair and prices showed a somewhat easier tone as the result of profit-taking induced by recent sharp advances. Cocoa prices gained 4 cents per pound in the week, reflecting tightness in the spot market and continued lack of offerings from primary markets.

Cotton markets developed further strength last week. Spot prices averaged about 1 cent per pound higher, largely influenced by local covering and price-fixing against sales of cotton to the Commodity Credit Corporation.

Inquiries were numerous and medium to better grades were actively sought by mills. Sales in the 10 spot markets totaled 462,900 bales for the week as compared with 398,600 the previous week, and 197,200 in the same week a year ago. Consumption of the staple during September was slightly below trade expectations, totaling 727,448 bales, according to the Bureau of the Census. This compared with 710,601 in August, and 819,058 in September a year ago. The average daily rate of consumption last month was estimated at 33,400 bales, against 33,900 in August, and 39,400 in September last year. Cotton loan entries showed an increase for the week, as did registrations for export. Carded gray cotton cloth markets were featured by continued strong demand for print cloths and sheetings at firm prices.

Activity in the Boston raw wool market was slower last week. There was a persistent demand for fine and half-blood domestic wools but offerings remained scarce.

Some improvement was noted in foreign apparel wools as the result of increasing arrivals of new clip, foreign fine wools. Appraisals of new clip domestic wools for purchase by the CCC totaled 8,940,656 pounds during the week ended Oct. 10, bringing total appraisals for the season to date to 76,148,251 pounds.

RETAIL AND WHOLESALE TRADE IMPROVE SLIGHTLY OVER WEEK AND YEAR AGO

Consumer buying remained brisk with retail volume in the week slightly above the level of the previous week and moderately exceeded that of the corresponding week a year ago, Dun & Bradstreet, Inc. reports in its current survey of trade.

Interest in Fall and Winter clothing was curtailed in some areas by unseasonally warm weather. Very little resistance to high food prices was reported and it was noted that the super markets in many areas were very heavily patronized.

A very large proportion of consumer income continued to be spent on food the supply of which was generally plentiful. Canned and frozen foods remained very popular and fresh vegetables and fruits were purchased in large volume. Utility cuts of beef and pork products were in large demand with the buying of poultry and fresh fish substantial. Many housewives requested very large quantities of flour.

Apparel sold well last week. Women's hooded and untrimmed cloth coats were popular, while crepe dresses, sweaters and skirts were in steady demand. Interest in fancy silk scarves, hats and accessories increased and buying of costume jewelry improved. Men's suits and overcoats were steadily purchased. Demand for boys' jackets, slacks and wool shirts also increased. The buying of both men's and women's shoes continued steady and at high level.

The demand for good quality furniture continued to be large and the supply of branded major appliances improved in some areas. Consumer interest in phonographs decreased. Paints, building materials and plumbing supplies remained in large demand with automobile supplies selling well. Sporting goods volume, too, was large.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 9 to 13% above a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England 4 to 8, East 15 to 19, South 3 to 7, Middle West and Southwest 5 to 9, Northwest 6 to 10, and Pacific Coast 13 to 17.

Wholesale volume in the week was slightly above the levels of both the preceding week and the corresponding week a year ago. Orders for most types of merchandise continued to be substantial. Preference for articles of good quality remained evident. With the Fall consumer testing period over, some retailers revised their order positions with cancellations of overdue orders reported in some lines.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 18, 1947, increased by 2% from the like period of last year. This compared with an increase of 8% in the preceding week. For the four weeks ended Oct. 18, 1947, sales increased by 12% and for the year to date increased by 8%.

Substantial progress was the rule in retail trade here in New York the past week with department store volume placed at about 35% above the similar week of 1946.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period to Oct. 18, 1947, increased 23% above the same period last year. This compared with an increase of 26% (revised figure) in the preceding week. In using year-ago comparisons for this week allowance should be made for the fact that in the cities of New York and Newark work stoppages in the trucking industry prevailed. For the four weeks ended Oct. 18, 1947, sales increased 29% and for the year to date rose by 9%.

As We See It

(Continued from first page)

things, or else it believes it more effective for one reason or another to postpone such mundane considerations to a later date.

Details Lacking

At any rate, the rank and file apparently must await the President's pleasure for more specific information about these phases of the questions now brought to the fore by the Chief Executive. Meanwhile, it would seem in order to express certain hopes about what the President will presently ask of Congress and what Congress, either at the instigation of the President or at its own instigation, will do in the premises. For one thing, it may be most fervently hoped that before the time comes for Congress to consider making the large gifts to France which the President now mentions, he or some one in a position really to know the full facts and ready to give them full and frank expression will explain why France, more than two years since it was liberated—France, which is normally quite self-supporting as respects its food—should now have to be spoon-fed by the United States gratis—or starve.

There is certainly little or nothing in current statistics to suggest that anything of the sort is necessary. For our part, we should like to see facts and figures, in black and white, about the food situation in France—compiled and presented by competent persons who are not obsessed with the idea that we must bribe the French to reject Communism. We think there are a good many others who would, too. We should also like to be told much more about French balances in this country, and much more about what the French are doing to help themselves. In the absence of a clear showing in support of what is being asked for that country, we think the people of this country should demand that a halt be called upon present proceedings.

Other Facts Needed

Similar substantiation of what the President is now telling us about the situation in Europe is likewise badly needed in the case of Italy and a number of other countries. We, of course, have no way of knowing what the temper of Congress is on these matters. It gained a rather undeserved reputation as an "economy-minded" body at one time. A number of the members of the legislative branch have been in Europe this summer. Time only will tell whether they were really "on their own." Their visits could, of course, in some circumstances be made a powerful supporting influence for all those who feel that we must bribe the remainder of the world to remain aloof from Russia. Careful, independent study by intelligent members of Congress could save the United States a great deal by preventing it from following headlong after the pleadings of the Executive Branch without any independent inquiry at all.

And, now in the domestic theater of operations. The President has very carefully refrained from saying officially how he would go about "controlling" or "eliminating" inflation. He and his advisers have, from time to time, had a good deal to say informally on the subject. Little unity or cohesion is to be found in these comments. Indeed they often appear to lack ordinary consistency. We hear—that is, when effort is being made to have foreign demand appear of small consequence—that the real cause of inflation in this country is to be found in the tremendous volume of purchasing power in the hands of the masses, a power which they are definitely disposed to exercise in most of the markets of the country. So many people have so much money or income, and want so many things all at once, that it would hardly be reasonable to expect prices not to respond, despite the fact that production in many, if not most instances, is breaking all records from month to month.

But . . . !

So far so good. But in the next instance, we are told that prices are so high that the people can not buy what they want or need, and that the continued rise in values threatens to place many things far beyond the reach of most of the people, at which time a depression is inevitable! To the curious, it appears a little strange that people bid prices up beyond their own reach—particularly when the process of production and distribution must in the nature of things create purchasing power in the amount of the price asked and received. But there are other strange quirks about this reasoning of the wiseacres among the political advisers of the Administration, and among those voluble if half-forgotten minions of the New Deal in its heartier days.

One of these peculiar things is the suggestion that the way to stop inflation is to take some of this purchasing power away from the people through taxation! It is not altogether clear whether this is supposed to fit into the notion of the President about the cause of high prices or whether it is more or less independent of it. But one wonders how it can possibly be reconciled with the President's notion of a purchasing power which is already beginning to fall short of buying all that is being produced, or the notion that somehow purchasing power must be strengthened to provide markets for goods produced.

Now, of course, it may be that the President and his most intimate advisers are about to fall into that easy philosophy of Mr. Roosevelt, to the effect that the proper procedure is to "soak the rich" (who apparently are believed never to buy anything, anyway) and in one way or another turn the funds over to the "under-privileged third" who would quickly spend it and thus maintain prosperity more or less indefinitely. The trouble with that is that everyone now knows well enough that it is sheer nonsense.

It is a strange intellectual hodge-podge that is being served up in Washington.

Crisis Facing Private Enterprise

(Continued from page 13)

and the inadequate. The risk of the business cycle falls heavily on efficient and inefficient businessmen alike. The bankruptcy statistics of the 1929 to 1933 period furnish grim reading. In 1932, business as a whole was in the red to the tune of $6 billion. It is the new businesses struggling to get on their feet and with inadequate reserves which are most likely to be wiped out in periods of this kind.

One step which would help to maintain a high level of purchasing power is a government guarantee that come what may 1,300,000 homes will be built each year. I believe that an approach of this kind is essential if we are going to free the housing industry of its present vicious cycle of business monopoly, featherbedding and politically inspired building codes.

If a huge market for building materials were guaranteed in advance, risk capital would be more anxious to enter this field with boldness and imagination. In a determined effort to see that the homes were built by private industry rather than by government sponsored activity, new energies would be applied to the task of increasing efficiency throughout the whole industry.

As part of this guaranteed market idea, I would like to see the government guarantee, through a carefully planned system of public works, that our heavy goods industries will keep rolling year in and year out at a high level of production. There is plenty in this field for government to do. We need more schools and better schools. We need more hospitals and better hospitals. The benefits of the TVA which have been brought to the people of the Tennessee Valley, should not be denied the people of the Mississippi, the St. Lawrence, the Arkansas and the Columbia Valleys. The timing of such projects can be a big factor in maintaining full production and full employment.

Government can also work to sustain our purchasing power by constructive methods of taxation. Our present tax system is a mess. The corporate income tax represents double taxation. I would like to see it eliminated. If this were done, dividends would, of course, be substantially increased. But they would be subject to the normal income tax rates as they are reported by individuals. It would be necessary to place a heavy penalty tax on the accumulation of reserves which are neither reinvested in expansion or improvement or earmarked for such investment in the future, but this technical detail could be worked out.

I would also like to see taxes made much more advantageous for new businesses. I would like to see most of the present excise and sales taxes taken off consumption.

In these four fundamental government roles, carefully coordinated and directed by able administrators, government can do a great deal to help stabilize our economy. By its handling of tax rates, by its timing of public works, by the expansion of social security payments, by its guarantee of a minimum food consumption to match our farm production potential, by an aggressive program against monopolies, by an all-out housing and slum clearance program, government can go a long ways towards guaranteeing the markets on which full production and full employment depend.

But those who feel that government can do the whole job or even two-thirds of the job under a private enterprise system are, in my opinion, badly in error. The TVA cost only a billion dollars. Even at the present level of prices, we could bring similar power, irrigation and navigation developments to all of our major rivers for no more than $10 billion—a sum which would necessarily be spread over a period of years. We need more schools badly, but 2,000 schools can be built for a billion dollars. We need more hospitals badly, but 2,000 hospitals can be built for the same amount.

Responsibilities of Business

There is a definite limit to what government can do provided we are really determined to maintain a private enterprise system in America. A major share of the responsibility for sustained full production and full employment must rest on the day-to-day decisions of our businessmen, our workers, and our farmers. Of these three groups, the key role must be played by businessmen who, to a large extent, determine the prices, wages and profits which turn the wheels of American industry.

Let's take the problem of wages first. In every generation since the Civil War, we have doubled our productive output. I'm not talking about inflated dollars, I'm talking about actual units of production.

A part of this increase, of course, is due to our increase in population. But much the greatest share is due to the fact that in each generation our plants have become increasingly efficient and the skill of our workers has been steadily improved.

In the 20 years before the war, the average increase in labor output per manhour was 4% each year. At the end of the Second World War, our labor output was down in some industries and in varying degrees. Some of our machinery was in a badly worn condition. The morale of our workers after four years of intensive war effort was at a low ebb. But, today, according to all reports, the trend is again upward and it should continue upward in the future.

Clearly, the proceeds resulting from an increased output per manhour should be divided in some reasonable fashion between management and labor. If labor fails to get a high enough proportion, we will lack the purchasing power to buy the goods which our increasing productive power makes possible. This is exactly what happened in the 1920's and it was one of the factors which led to the collapse of 1929. On the other hand, unless business gets a reasonable share, there will be insufficient savings to pay for essential improvements in equipment and for necessary plant expansion.

I hope that more adequate statistics will be developed, industry by industry, on this whole subject of output per manhour. When these figures are available, they should be used as a rational basis for collective bargaining. Indeed, we need more facts and less emotion in the whole field of labor-management relations.

Ways Wages Can Be Raised

There are only three ways that wages can be raised. In some instances, where profits are more than adequate, wages can be increased, even when there is no increase in labor productivity, by management's awareness that its profit ratio is too high and its willingness to raise wages without raising prices. In other cases, where there is no increase in labor productivity and where profits are no more than reasonable, it may be proper to raise the price, provided the wages in those industries are at an unreasonably low level. There is no reason why we should ask the wage-earner to subsidize the consumer.

But the third road to higher wages is the one to which we must look for constantly high purchasing power and a healthy economy — namely, increased wages based on increased labor output per hour. A steady increase in labor productivity will allow wages to be increased, profits to be increased, and in many cases lower prices in addition.

This is not idle theory. In 1946, prices were at about the same level as in 1919. And yet, wages were twice as high, and profits had tripled. In the 1930's, we had constantly improved home equipment, such as vaccum cleaners, refrigerators, radios, and washing machines, with lower prices, higher wages and higher profits. That's the way capitalism can work for the benefit of everyone.

Profits Too High

This question of wages, of course, is tied in closely with the problem of profits. Industry profits are high today. I believe they are far too high for the health of our economy. But profits which are too low would be equally dangerous. Business profits must be high enough to provide not only an incentive for management and for capital, but also to provide the savings which will allow industry constantly to expand and to become more efficient.

A lack of sufficient capital investment in British and French industry before the war to improve efficiency resulted in stagnation. With no increase in labor output, it was impossible to raise wages without raising prices. As a result, between 1930 and 1939 the standard of living in these two countries actually deteriorated. This was a failure of capitalism. It is the direct cause of the rapid march of democratic socialism in these two countries today.

Prices should be high enough

to provide an adequate profit. Prices should also be high enough to allow the payment of adequate wages—wages which increase as productivity increases. The question of how to keep prices at reasonable levels and still meet these important requirements is the biggest single challenge which businessmen will face in the future.

I think you will agree that in many industries today, prices are set on a dangerously haphazard basis. There are, it seems to me several reasons why the prices of many of our products have been unrealistic even in normal times.

One reason is the tendency of many businessmen to worship markups. Markups in most industries have been established over a period of years. They are the result of long struggles between raw material producers, manufacturers, and retailers. Once a percentage markup has been well established, it is difficult to change it.

I saw this clearly during my experience in Washington during the war. Businessmen rarely talked about overall profits. Their main concern was markups. Markups were sacred, no matter how great the overall profit might be. We bureaucrats changed them at our peril.

As the total volume of business grows greater, the markup which was proper in a period of lesser production obviously become difficult to defend. Anything that we can do to get businessmen to concentrate on the amount of money they make over their whole operation rather than the percentage markups which appear on their books, will contribute to a healthy private enterprise economy.

The second problem in the fixing of prices is the monopoly problem on which I have already touched. Adam Smith, the economic Patron Saint of the National Association of Manufacturers, once stated that whenever two businessmen got together the first thing they tried to do was to figure some means of avoiding the rigors of the free market.

And yet, there is a great deal of nonsense written and said on the subject of monopoly. The fact that a business is big is, in itself, not prima facie evidence of monopoly. In fact, many of our big business institutions are among the most efficient.

Intelligent businessmen should take up the fight against real monopoly in any form, whether it be big business combines, secret price agreements between businesses which on every subject but price are vigorously competitive, or small business combinations which seek to impose restrictions on bigger units which have developed more efficient methods of producing and selling.

Haphazard Pricing

The third contributing factor to haphazard pricing in some industries is lack of adequate figures. Although a great many businessmen know their costs thoroughly, many others have surprisingly little idea of what it actually costs them to produce or distribute their product. We ran into this situation in many unexpected ways in setting prices during the war.

I believe the first three factors which affect setting of prices can be successfully met if we only have the will and intelligence to do so. The fourth is more difficult.

Let's take a business which is making a normal profit. Its volume is rather small and its price is rather high. The bright young sales manager suggests that if the price could be dropped 20%, sufficient volume would be developed to allow for an increase in profit. He argues his case skillfully but it is hard for him to present any facts.

How can the top management officials know even roughly what kind of extra volume a lower price will bring? In effect, the young sales manager — right though he may be—is asking his more conservative elders to jump off the end of the dock with no knowledge of how deep the water may be.

Business research can be helpful in arriving at many business decisions. But this question of just how much extra volume a lower price will bring is a hard research nut to crack. If you test a lower price in Worcester, Massachusetts, the wholesalers all the way from Boston to Hartford will take advantage of your offer and, as a result, your results will be badly distorted and your test will be of very little value.

And yet, this is the basic approach to private enterprise—larger profits, through large volume, through lower prices or an improved product. This is the economic approach which brings benefits to everyone, consumer and producer alike—and yet largely because it is hard to establish what kind of extra volume a lower price will bring, businessmen are often reluctant to take the chance.

I will gamble that a heavy proportion of the products sold today would make more money if they sold at a lower price. And I think its high time more of our businessmen were willing to take greater risks in that direction. Risk-taking is essential to the health of our private enterprise system. Too many businessmen today, as Adam Smith said of the businessmen of his own day, are only willing to bet on a sure thing.

Need More Enlightened Business Leadership

Businessmen have a grave share of responsibility in making our economy really work and unless we get more enlightened leadership in business, I am none too confident of what will be accomplished. If war should come, our present system will necessarily be damaged beyond recognition. But even under peacetime conditions, the challenge to our private enterprise system will not be easily met.

The world moves fast these days. We no longer have the time to fumble our way forward as we did in the days of our grandfathers.

Most businessmen work hard and conscientiously in mastering the intricacies of their individual business or industry, but they have little time for anything else. Their reading is often limited to the trade papers, the "Saturday Evening Post," and what Ralph Robey has to say in 'Newsweek.' With too little time really to think on the broad problems of our economy, they fall too easily into the habit of following blindly the leadership of some of the reactionary old-timers who oppose the income tax, social security, TVA, the Securities and Exchange Commission, and whose grandfathers a hundred years ago undoubtedly fought against public education.

Businessmen, moreover, have what seems to me a bad habit of thinking of themselves as kind of a gigantic club. The members of the club are often at odds with one another, but if anyone on the outside criticizes a member—and particularly if the critic happens to carry that unfortunate label of a liberal—the club goes to bat en masse.

We need new business leaders who really understand the economic and political age in which we are living. We need a deep confidence in the productive power of our economic system. We need more energy, more imagination. We need, in short, more enterprise.

And finally, we need to modify our unthinking worship of our narrow pre-war capitalism. We need to realize that any economic system is in a constant state of evolution, and that our system, which promises so much, must and can—if only we have good sense and good judgment—continually evolve into something far superior to anything our grandfathers knew.

There is nothing wrong with capitalism. Where trouble exists, it is in the way we practice capitalism. Already, we have seen capitalism go by the board in country after country simply because the capitalists stopped believing in what the system could provide and began to think in terms of conserving their resources and in building economic bomb-proof shelters against the future.

Should Not Allow Capitalism to Fail

We cannot allow capitalism to fail in America. We must prove our ability to make our system work efficiently—not for the benefit of the few but for the benefit of the many.

Today, a basic assumption of the Soviet Government is that a depression of major proportions is inevitable in America and that out of that depression will come a strong reactionary government which must find its outlet in war. We must prove to the Soviet Government that this assumption is false and that we as a people are capable successfully of managing our own economic affairs. Only when this proof has been established will we be a thoroughly united people—only then will it be possible to reach the kind of basic international understanding on which lasting peace and prosperity must depend.

The greatest question of our day, it seems to me, is whether or not American business will rise to its tremendous economic and political responsibilities; whether it will produce new and vigorous leaders who will grasp the issues of the day and meet them with confidence and courage.

If businessmen, who represent the most powerful force in America today, continue to cling to the economic cliches of the past, our system will go the way of every other system which has collapsed, not because it was basically weak but because those who had the greatest control of its destinies were stubbornly determined to oppose all reasonable change.

If, on the other hand, American business leadership—I insist it must be *new* American business leadership—rises to the challenge, we may readily be embarking on a new era which will spell not only economic abundance for all of us, but a peace which will endure for generations.

Westenberger in L. A.

LOS ANGELES, CALIF.—Lorenz H. Westenberger is engaging in a securities business from offices at 210 West Seventh Street.

With Thomson, McKinnon

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA. — Thomas H. Hightower has become associated with Thomson & McKinnon, 105 West Forsyth Street. Mr. Hightower was recently with Southeastern Securities Corporation.

Gross, Rogers & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Phillip H. Gibson has been added to the staff of Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

With Paine, Webber Firm

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Albert P. Everts, Jr. is with Paine, Webber, Jackson & Curtis, 24 Federal Street, members of the New York Stock Exchange and other leading exchanges.

Jet-Propulsion In the Stock Market

(Continued from page 5)

actually believed in it. Many sold simply because they realized its potential impact on the market."

Thus the essential behavior of Dow operators and similar trend-followers may be conceived of as follows: **Whereas other speculators may buy a stock in expectation of someone else subsequently taking it off his hands at a higher price because of news of higher earnings or because of increased popularity from other causes; or may sell it short for converse reasons; the followers of the break-through-point theory are betting in anticipation of others' subsequent buying or selling because of psychological excitement caused by the succession of "up-tick" or "down-tick" quotations.**

It is this factor of "a large number of followers helping to corroborate its [the Dow theory's] predictions *regardless of their initial validity*" that accelerated and accentuated the decline which is important to note. That is, the direct correlation between the number of people pursuing a trend Ponzi-like, and the distortion of the price structure.

In this connection some of the basic reasons, which are likewise "mechanistic," for the popularity of Dow theory should be realized. For example, one reason is the public's ingrained feeling that the so-called insiders' actions, rather than economic and other extrinsic factors, can give the key to the market's future. Another is the public's vague belief in the infallibility of mass judgment as empirically expressed by the market's actual trend.

Blue-Chip Momentum Secularly Increasing

The effect of mass belief can also be seen in the long-term divergence between different groups within the market. Thus, in the case of "blue-chips," careful studies show that their rise against the balance of the market has, with the exception of part of the war period, shown a steady secular growth since 1934. The continuation of this right up to the present can be appreciated by noting the variations in price-earnings and price-asset rations even between the blue-chips and nonblue-chips composing the Dow-Jones Industrial Average.

Thus, with regard to blue-chip as well as Dow philosophy, the greater the number of devotees, the greater and longer is its likelihood of continuing to work. This arises from their basic difference from *scientific* theories. The fact that few people believed Columbus' theory of a round world did not in any way increase the probability of the world's being flat. The fact that people *did* believe Franklin has not been a controlling reason for outstanding progress in the field of electrostatics. In speculation, however, a theory apparently can become a law merely because a sufficient number of people believe in it.

How Long the Momentum?

The number of devotees "following the crowd" of a market movement, together with that crowd, may get to be very large, and the resulting momentum may steadily remain the strongest element among the buying and selling forces in the liquid market place. Nevertheless, at some point the momentum will collide with and be halted by extrinsic factors. These reversers of the trend sometimes pertain to value, sometimes they are imponderables such as Mr. Roosevelt's price pronouncement in 1937, but they may also be in the form of other "technical" elements. *In any case the timing of their occurrence is unpredictable.*

One of these counteracting "technical" elements might, for example, be formula-timing operation. Formula-timing technique, irrespective of the qualifying observations that may be made about it, socially is constructive rather than destructive as are Dow theory and the other trend-accentuating operations. For the more that people follow the formula plan's basic principle of "equalizing" the proportion, of portfolio fixed-interest and equity holdings and of buying on a scale during periods of market weakness, the greater is the narrowing of price swings—all the way to infinity in the event of unanimous conformity to such behavior. This process is in direct contrast to the repercussions from Dow theory operators who withhold their support of the market during the late stages of a market decline and then jump aboard and help to exaggerate the rise considerably after a subsequent advance has been generated.

Thus, the Dow category of technical operations distort, while formula-equalizing balances, the price structure.

The White House Watches the Ticker

It should be realized that stock price movements are not confined to the market place, but have repercussions over a very wide part of our society, including the business, general economic, and political spheres.

In addition to the qualitative effects on the public of long-term stock market movements, as 1926-1929 and 1929-1932, which are widely held to be barometrically and thermometrically useful, even single-day market action entails very wide effects. The attention paid to the market by Presidents of the United States is again highlighted in the historical record kept by former Secretary of the Treasury Morgenthau. In an excerpt from his diary, recently published in "Collier's," this former Cabinet member reports that in October, 1937 President Roosevelt and he were led to decide that a serious depression was at hand and were galvanized into adopting certain major policies by a single day's severe break in the stock market. This despite the fact that actually the peak of the business cycle, according to Willard L. Thorp's "Business Annals," and other objective indices, had been passed the previous May, and despite the President's own pronouncement about excessive prices the previous April. Thus violent stock market action—whether induced by "economic" or "technical" causes—is invested even by the White House with attributes for decisively interpreting existing conditions.

Sometimes, a President, as well as the witch-hunting Congressman Sabath, unwittingly follows the chart-ists!

Curb Inflation and Provide Aid to Europe: Truman

(Continued from page 7)

prevented the rebuilding of fuel stocks.

The financial reserves of France and Italy have been nearly exhausted by the cost of their imports since the end of the war. Rising prices in the United States and in other countries where they must buy have further reduced the purchasing power of their remaining funds. They now face the coming winter without sufficient resources to pay for essential food and fuel.

The figures tell the story.

France can meet her minimum needs with present funds until the end of December, but she will enter the new year without funds to pay for essential imports. The French will need $357,000,000 to carry them until March 31, 1948.

Italy will not be able even to get through the rest of this year. Italy must have $142,000,000 to carry her until Dec. 31 and an additional sum of $143,000,000 to get through the first quarter of 1948.

Serious difficulties have also been encountered in the occupied areas—Germany, Japan and Korea. Additional funds will have to be appropriated this year in order for us to maintain our position in these areas.

It can readily be seen that Congressional action to meet these needs cannot be delayed until January.

Urges Conserving Grain

My action in convening the Congress on Nov. 17 in no way reduces the necessity for pressing forward with our voluntary food-saving program. Dollars appropriated by the Congress cannot feed hungry people if there is no food for the dollars to buy. There will not be enough food unless we, the people of the United States, save vast quantities of grain. I am deeply gratified at the splendid response of the American people to our national food-saving program. It is an earnest effort to meet the needs of humanity.

Even with the proposed aid from this country, the people of Europe this winter will be on short rations. They will be cold, and they will be without many necessities. But our emergency aid will be definite assurance of the continuing support of this nation for the free peoples of Europe.

The two problems I have been discussing with you tonight—high prices at home and hunger and cold abroad—present a challenge to the American people.

We could choose the course of inaction. We could wait until depression caught up with us, until our living standards sank, and our people tramped the streets looking for jobs. Other democratic nations would lose hope and become easy victims of totalitarian aggression. That would be the course of defeatism and cowardice.

Our other course is to take timely and forthright action. If we do this we can halt the spiral of inflation at home, relieve hunger and cold abroad and help our friendly neighbors become self-governing once again.

I know that it is the heartfelt wish of the American people that action be taken which will overcome the obstacles to peace and prosperity confronting this nation.

It is within our power to lead the world to peace and plenty.

With resolution and united effort we shall achieve our goal.

I. B. A. Convention Opens Nov. 30

(Continued from page 18)

Those traveling to Hollywood by other means than the special trains should, of course, register at the hotel desk in the regular way.

Convention Transportation

Special trains for the convention will be operated from New York and Chicago to Hollywood and return. In addition, special cars will be operated from Cleveland and Pittsburgh to be attached to the New York special train en route, and from Detroit and St. Louis to be attached to the Chicago special train en route. The schedules for these trains and cars will be as follows:

NEW YORK SPECIAL TRAIN

Going

Saturday, Nov. 29		Eastern Time
Lv. New York	Pennsylvania RR.	11:10 a.m.
Lv. Newark	Pennsylvania RR.	11:25 a.m.
Lv. North Philadelphia	Pennsylvania RR.	12:44 p.m.
Lv. 30th Street Phila.	Pennsylvania RR.	12:54 p.m.
Lv. Wilmington	Pennsylvania RR.	1:20 p.m.
Lv. Baltimore	Pennsylvania RR.	2:25 p.m.
Lv. Washington	R. F. & P. R. R.	3:10 p.m.
Lv. Richmond	Atlantic Coast Line	6:00 p.m.
Sunday, Nov. 30		
Lv. Jacksonville	Fla. E. C. Ry	6:25 a.m.
Ar. Hollywood	Fla. E. C. Ry.	12:25 p.m.

Returning

Friday, Dec., 5		Eastern Time
Lv. Hollywood	Fla. E. C. Ry.	4:45 p.m.
Lv. Jacksonville	Atlantic Coast Line	11:15 p.m.
Saturday, Dec. 6		
Ar. Richmond	Atlantic Coast Line	11:00 a.m.
Ar. Washington	R. F. & P. R. R.	1:45 p.m.
Ar. Baltimore	Pennsylvania RR.	2:55 p.m.
Ar. Wilmington	Pennsylvania RR.	3:55 p.m.
Ar. 30th Street Phila.	Pennsylvania RR.	4.32 p.m.
Ar. North Philadelphia	Pennsylvania RR.	4:41 p.m.
Ar. Newark	Pennsylvania RR.	6:05 p.m.
Ar. New York	Pennsylvania RR.	6:20 p.m.

CHICAGO SPECIAL TRAIN

Going

Friday, Nov. 28		
Lv. Chicago (Cen. Station)	New York Central Syst.	8:30 p.m. (CT)
Saturday, Nov. 29		
Lv. Indianapolis	New York Central Syst.	12:25 a.m.(CT)
Lv. Cincinnati	Southern Ry.	4:25 a.m. (ET)
Lv. Chattanooga	Southern Ry.	11:45 a.m. (CT)
Lv. Atlanta	Southern Ry.	4:55 p.m. (ET)
Sunday, Nov. 30		
Lv. Hampton	Seaboard Ry.	1:25 a.m. (ET)
Ar. Hollywood	Seaboard Ry.	8:15 a.m.(ET)

Returning

Friday, Dec. 5		
Lv. Hollywood	Fla. E. C. Ry.	9:00 p.m. (ET)
Saturday, Dec. 6		
Lv. Jacksonville	Atlantic Coast Line	4:30 a.m. (ET)
Ar. Montgomery	Atlantic Coast Line	12:45 p.m. (CT)
Lv. Montgomery	L. & N. RR.	1:15 p.m. (CT)
Ar. Birmingham	L. & N. RR.	3:15 p.m. (CT)
Ar. Nashville	L. & N. RR.	8:30 p.m. (CT)
Sunday, Dec. 7		
Ar. Evansville	L. & N. RR.	1:30 a.m. (CT)
Lv. Evansville	C. & E. I. RR.	2:00 a.m. (CT)
Ar. Chicago	C. & E. I. RR.	8:30 a.m. (CT)

CLEVELAND SPECIAL CAR

Going

Friday, Nov. 28		Eastern Time
Lv. Cleveland	Pennsylvania RR.	8:00 p.m.
Saturday, Nov. 29		
Ar. Washington	Pennsylvania RR.	7:35 a.m.
Lv. Washington	New York Special	3:10 p.m.

Returning

Saturday, Dec. 6		Eastern Time
Ar. Washington	New York Special	1:45 p.m.
Lv. Washington	Pennsylvania RR.	8:50 p.m.
Sunday, Dec. 7		
Ar. Cleveland	Pennsylvania RR.	8:25 a.m.

DETROIT SPECIAL CAR

Going

Friday, Nov. 28		Eastern Time
Lv. Detroit	B. & O. RR.	3:15 p.m.
Lv. Toledo	B. & O. RR.	4:40 p.m.
Ar. Cincinnati	B. & O. RR.	9:35 p.m.
Saturday, Nov. 29		
Lv. Cincinnati	Chicago Special	4:25 a.m.

Returning

Friday, Dec. 5		Eastern Time
Lv. Hollywood	Fla. E. C. Ry.	2:06 p.m.
Lv. Jacksonville	Southern Ry.	9:30 p.m.
Saturday, Dec. 6		
Ar. Cincinnati	Southern Ry.	9:55 p.m.
Sunday, Dec. 7		
Ar. Toledo	B. & O. RR.	5:30 a.m.
Ar. Detroit	B. & O. RR.	7:20 a.m.

PITTSBURGH SPECIAL CAR

Going

Friday, Nov. 28		Eastern Time
Lv. Pitsburgh	Pennsylvania RR.	10:55 p.m.
Saturday, Nov. 29		
Ar. Washington	Pennsylvania RR.	7:35 a.m.
Lv. Washington	New York Special	3:10 p.m.

Returning

Saturday, Dec. 6		
Ar. Washington	New York Special	1:45 p.m.
Lv. Washington	Pennsylvania RR.	11:35 p.m.
Sunday, Dec. 7		
Ar. Pittsburgh	Pennsylvania RR.	7:55 a.m.

ST. LOUIS SPECIAL CAR

Going

Friday, Nov. 28		Central Time
Lv. St. Louis	New York Central Syst.	6:00 p.m.
Ar. Indianapolis	New York Central Syst.	10:40 p.m.
Saturday, Nov. 29		
Lv. Indianapolis	Chicago Special	12:25 a.m.

Returning

Sunday, Dec. 7		Central Time
Ar. Evansville	Chicago Special	1:30 a.m.
Lv. Evansville	L. & N. RR.	3:45 a.m.
Ar. St. Louis	L. & N. RR.	7:50 a.m.

PULLMAN RESERVATIONS

New York Special Train—Pullman reservations for the going trip should be made through the New York Transportation Committee, of which E. Jansen Hunt, White, Weld & Co., New York, is Chairman. Drawing rooms, compartments, and bedrooms will be available. Drawing rooms and compartments will not be assigned for single occupancy unless it develops at the last minute that there will be unused space available. When the supply of drawing rooms has been exhausted, it will be necessary to assign compartments to those requesting drawing rooms. When the supply of bedrooms has been exhausted, it will be necessary to assign those requesting bedrooms a compartment and a roommate.

One-way Pullman fares (including Federal tax) to Hollywood will be as follows:

	Drawing Room (2 Persons)	Compartment (2 Persons)	Bedroom (1 Person)
New York	$49.45	$38.87	$24.84
Philadelphia	46.92	36.97	23.69
Wilmington	46.92	36.97	23.69
Baltimore	44.39	35.08	22.60
Washington	41.75	33.87	21.45
Richmond	39.22	30.53	19.67

Certificates covering Pullman space will be issued in lieu of regulation Pullman tickets. Certificates will be mailed if applications are received promptly. Otherwise they may be picked up at the office of E. Jansen Hunt prior to 5:00 P.M. on Friday, Nov. 28.

The Committee will not handle return Pullman reservations. They should be made at Hollywood. Representatives of the railroads will be at the Hollywood Beach Hotel throughout the convention to handle such reservations.

Chicago Special Train—Pullman reservations for the going trip should be made through Charles R. Perrigo, Hornblower & Weeks, Chicago. The yellow form which accompanies this bulletin should be used for this purpose.

Drawing rooms, compartments, and bedrooms will be available. Drawing rooms and compartments will not be assigned for single occupancy unless it develops at the last minute that there will be unused space available. When the supply of drawing rooms has been exhausted, it will be necessary to assign compartments to those requesting drawing rooms. When the supply of bedrooms has been exhausted, it will be necessary to assign those requesting bedrooms a compartment and a roommate.

One-way Pullman fares (including Federal tax) to Hollywood will be as follows:

	Drawing Room (2 Persons)	Compartment (2 Persons)	Bedroom (1 Person)
Chicago	$50.60	$40.78	$25.99
Indianapolis	45.66	36.40	23.23
Cincinnati	43.02	34.44	22.02
Chattanooga	33.88	27.26	17.25
Atlanta	29.90	23.24	14.84

Certificates covering Pullman space will be issued in lieu of regulation Pullman tickets. Certificates will be mailed if applications are received promptly. Otherwise they may be picked up at the office of Charles R. Perrigo prior to 5:00 P.M. on Friday, Nov. 28.

Pullman reservations for the return trip should be made at Hollywood. Representatives of the railroads will be at the Hollywood Beach Hotel throughout the convention to handle such reservations.

Cleveland Special Car—Pullman reservations should be made through Harry G. Kraus, Ball, Burge & Kraus, Union Commerce Bldg., Cleveland 14, Ohio. Drawing rooms and compartments will be available. One-way Pullman fares (including Federal tax) between Cleveland and Hollywood will be as follows:

Drawing Room (2 Persons)	Compartment (2 Persons)
$55.66	$43.93

Detroit Special Car—Pullman reservations should be made through Ralph Fordon, Watkins & Fordon, Inc., Penobscot Building, Detroit 26, Mich. Drawing rooms and compartments will be available. One-way Pullman fares (including Federal tax) will be as follows:

	To Hollywood		From Hollywood	
	Drawing Room (2 Persons)	Compartm't (2 Persons)	Drawing Room (2 Persons)	Compartm't (2 Persons)
Detroit	$55.66	$43.93	$51.87	$41.40
Toledo	55.66	43.93	50.60	40.77

Pittsburgh Special Car—Pullman reservations should be made through M. M. Grubbs, Grubbs, Scott & Co., Union Trust Building, Pittsburgh 19, Pa. Drawing rooms and compartments will be available. One-way Pullman fares (including Federal tax) between Pittsburgh and Hollywood will be as follows:

Drawing Room (2 Persons)	Compartment (2 Persons)
$51.87	$41.40

St. Louis Special Cars—Pullman reservations should be made through Harry Theis, Albert Theis & Sons, Inc., 314 N. Fourth Street, St. Louis 2, Mo. Drawing rooms and compartments will be avail-

able. One-way Pullman fares (including Federal tax) between St. Louis and Hollywood will be as follows:

Drawing Room (2 Persons)	Compartment (2 Persons)
$48.19	$38.30

RAILROAD TICKETS

Railroad tickets should be purchased from local ticket agents. They will be able to advise as to fares and as to the form of tickets best suited to individual needs. **Those in charge of Pullman reservations (see above) will not be able to supply railroad tickets.**

It is important that those planning to travel on the special trains or cars specify that their railroad tickets be routed so as to conform with the routes of the special train or car in question, as set forth in the above schedules. It should be noted in this connection that round-trip fares do not ordinarily apply when the Florida East Coast Railway is used in one direction and the Seaboard Railway in the other. Accordingly, to provide for those traveling to and from the convention, a special tariff will be in effect under which round-trip fares will apply. Ticket agents will be on notice concerning this special tariff.

For the information of members, round-trip railroad fares (including Federal tax) to Hollywood from points served by the special trains and cars are given below. These fares were in effect at the time this bulletin went to press. They were subject to change, however, and an increase was anticipated in the near future. Information as to the new fares and their effective date was not available at the time this bulletin went to press.

Atlanta	$42.72	Cleveland	$94.82	Philadelphia	$82.74
Baltimore	75.15	Detroit	92.63	Pittsburgh	94.82
Birmingham	49.91	Indianapolis	80.73	Richmond	64.89
Chattanooga	51.35	Montgomery	45.48	St. Louis	80.79
Chicago	89.82	Nashville	61.07	Toledo	88.55
Cincinnati	73.03	New York	89.47	Washington	72.05
		Wilmington	$81.88		

An Appraisal of Some Banking Problems

(Continued from page 20)

explosive stage, is that there is a sudden rush to convert cash into goods. This, under extreme circumstances, can assume the proportions of a run on the banks, which is a prospect which none of us likes to contemplate, the memory of 1933 being only too recent and vivid in our minds. Beyond this, savings banks, like every other business institution, have expenses to pay, and with constantly rising costs of operation, it becomes increasingly difficult to make ends meet.

Under these circumstances too, the investment problem assumes serious proportions. While bonds, like savings bank books, are payable in dollars, it by no means follows that the corporate maker of such bonds will survive the effects of inflation in a sufficiently solvent condition to pay off his debt, even in depreciated currency. It is significant in this connection that mortgages, and especially residential mortgages, have proved to be a pretty sound medium over the years, even after allowing for all defaults and losses. According to a recent study by Dr. Lintner of the Harvard Business School, which appeared in the September 20th issue of the "United States Investor," the mutual savings banks of Massachusetts, a group quite comparable to your own, netted, during the period from 1931 to 1945, inclusive, an average yield of 3.9% annually in their mortgage portfolio after allowing for losses. This, mind you, covers a period of the most concentrated loss experience suffered by savings banks in nearly three-quarters of a century. Comparable figures over longer periods are 4.6% between 1907 and 1945, and 4.32% between 1926 and 1945. Dr. Lintner suggests that even if these net yields were reduced by one-half of one per cent to allow for operating costs "Mortgage lending has been good business for savings banks in spite of the losses absorbed in these loans."

But the foregoing rates are medium or long-term averages and do not alter the fact that explosive inflation, no less than explosive deflation, bankrupts many a borrower, whether individual or corporate. Thus the selection of suitable media for investment becomes increasingly difficult as inflation runs its course.

Now I do not present these frightening prospects by way of implying that all or indeed any of them will occur. It is my own opinion that somehow the course of inflation will be halted short of any really explosive phase. I look, for example, for certain deflationary trends to set in, especially if the price rise goes very much further. Indeed, I shall stick my neck out and say that a little recession would be salutary medicine for all of us. I think it will come, and if it must, I hope it will be sooner rather than later—for the more it is postponed, the more severe it is apt to be. We need a corrective phase in the economic cycle right now.

So, passing for the moment the more dangerous elements in the prognosis, let us deal for a moment with some of your immediate problems.

Interest Rates

The recent debt retirement and the unpegging of government bills would seem to indicate that interest rates will go no lower. Indeed, as you know, the prevailing rates for purely short-term money on Treasury bills and the like are up sharply. On the other hand, I do not envision any early hardening of rates of major proportions for medium to long-term government bonds or for corporates of bank-eligible character.

This leads naturally to the question of rates on loans. It is not surprising that there occurred, within the past few years, a general softening of mortgage rates. The trend of interest rates and the competition among lenders for placement of loanable funds made this inevitable. There has been an increasingly vigorous competition among the various types of banks and other lending agencies for mortgages. Before I was elected a director of the Federal Reserve Bank, I served simultaneously as a director of three Rhode Island banking institutions—one a commercial bank, one a mutual savings institution, and one a building and loan association or cooperative bank, as we call them over there. In this triple capacity, I had an unusual opportunity to sense the growing rivalry between these three forms of banking institutions. Each was gunning for the others' business with no holds barred. Where formerly certain classes of business went more or less by custom to one type of bank or another, the necessity to finding outlets in other than the bond market for mounting deposits caused each to look for investment opportunities in the others' field and to grasp them to the fullest extent permitted by the banking laws.

Under these conditions, rates naturally fell somewhat, but, what is equally significant, banks tended more and more to offer other inducements in the form of gratuities to lenders — free title search, free construction and scrow services, free appraisals, and the assumption by the banks of many of the other costs incident to new construction projects which were formerly absorbed by the borrower.

Many bankers view these trends with alarm, but they are in keeping with the times—an end product of free competition under the laws of supply and demand. True, they pose a problem for the future, as costs rise and incomes perhaps shrink, but there is nothing static about them. When commercial banks found it uneconomic to handle demand deposits for free, they did not hesitate to impose service charges. When and if necessity calls for it in the field of lending, you will doubtless take a leaf from their book. In the meantime, the interest rates which you gentlemen offer the thrifty public on their deposits can scarcely be called extravagant!

In brief, I think the savings banks, on the whole were benefited measurably when crass competition reared its ugly head. It brought into your sacred precincts an element of realism, of the world worldly, which I submit many of you have needed. Your resultant submission to the needs of trade indicates an appreciation of the fact that your borrowers, as well as your depositors, are first of all customers who must be won and held by merit and service if they are not to be turned elsewhere.

Savings Banks' Public Relations

There is more—much more—that you could do to lure the cautious public into your tombs of finance. While I do not counsel turning savings banks into hot-dog stands a lot could be and should be done to humanize them.

Why don't you, for example, simplify the process of making deposits? Encourage deposits by mail, and find, for heaven's sake, a simpler and more convenient method of assuring title to savings deposits than through the possession and exhibit of that archaic device, the pass book. If I want to make a deposit or a withdrawal, I have to carry the darned thing to the bank, haunted by the fear that I shall lose it en route and have to go through a legal process to get my money. The whole silly business is a relic of the horse and buggy days and as outworn as the mode of transport which gave those days their name! A signature card,or other means of identification, and a ledger card in the bank, supplemented by a monthly statement of deposits and withdrawals to be sent to the depositor by mail, would be far more secure and of incalculably greater convenience to all concerned. Encouragement of banking by mail would save who knows how many man-hours of needless travel from home or office to bank and back, and the whole process would foster depositor good will and tend to increase your assets. So far as I know, this suggestion is original with me, but I think it is a good one; and if existing law or regulation won't permit it in any particular case, I suggest that you get busy and have the laws and regulations changed.

There is a danger, of course, in catering to the public to excess. The customer, unhappily, is not always right, and frequently even *he* knows it, though he be not adverse to putting over a fast one if he can get away with it.

Take the matter of appraisals: There can be no doubt that we are in a dangerous era for institutions which lend on housing and construction. Costs have undergone a precipitous rise, and prices in many cases are out of reason, judged by any known standards of value. Under these circumstances, the lending officer is faced with a difficult dilemma, and I have no doubt that many banks have taken mortgages somewhat out of proportion to the real values involved. Unwise loans tend to find their way into the mortgage portfolio, either because the borrower appears to be good, or because the loan looks too substantial to allow to go by default to some other institution, or just because the lender has such an excess of additional funds that he doesn't know what else to do with it. In a period of stress in the years to come, some of these loans may come home to roost, and the item of "Foreclosed Real Estate" will reappear in many a bank statement from which, happily, it has been absent for a number of years past.

There is no sure cure for this condition, but a few possibilities deserve the careful consideration of bank loaning officers. Where the mortgage appraisal seems unduly high, it seems reasonable to insist on heavier amortization during the earlier stages of the loan, until the residual value stands in a safe relation to probable replacement cost under the worst conditions. Another aid at least would be to modernize and streamline appraisal procedures. Here, it seems to me, is a job for experts who are unswayed by personal considerations, local pride, or the desire to make a sale. I am glad that Mr. Lockyer has touched on the problem of appraisals today, for it is a troublesome one, and I know that his counsel and guidance is far more competent than anything which I could offer. Irrespective of appraisals, however, never forget that character and ability to pay are the real and essential elements in the bank-borrowing relationship.

Home Building Prospects

Since the financing of new home construction is one of the primary avenues of investment of the mutual savings banks, it might be interesting to take an objective look at the present state of building construction and the prospects for increased activity in this field.

Here we have a chart which compares in graphic form the volume of residential construction and the costs of construction during and immediately following the two great World Wars. The base indices of the two periods, by the way, differ, the year 1915 being the base in the first case and 1939, in the second. In other words, in both instances we are comparing pre-war conditions with what transpired subsequently. There is a similarity in the post-war pattern of both curves, but they differ primarily in the fact that, currently, construction costs have not reached their peak, two years after the war's end, nor, for that matter, has the rise been quite so precipitous. If past experience is a guide, however, it seems probable that peak prices will coincide more or less with the recognized beginning of the primary post-war recession, for, indeed, inflation of construction costs is one of the major breeding forces of recessions. It also seems inevitable that the cost of building will level off thereafter at figures permanently higher than the costs of pre-war building.

By way of parenthesis, it is interesting to note that national income, even in a post-war depression, historically never drops below the average national income during the war which brought it into being.

These two facts—the indicated permanently higher level of building costs, and the rising trend of national income—offer a certain reassurance to the lending officer and the Real Estate Appraisal Committee though I offer this comforting thought without any intent to put you off guard. You gentlemen who must base future mortgage security on present estimates of value are confronted with a complex and troublesome problem.

Nevertheless, the virtual moratorium on residence building during the war days, the cumulative secular growth of the nation in the interim, and the obsolescence of a large proportion of our nation's dwellings and business structures combine to offer virtual assurance that there will be an abundance of building construction in the foreseeable future, which would appear to promise you ample outlets for the placing of your mounting deposits. Indeed, it is not difficult to conceive that sometime within the next ten years, you will be faced with the problem of applying a ceiling to the ratio of your mortgage loans to total resources, for the wise banker will steer a carefully chosen course between a fully invested position on the one hand, and ready liquidity to meet any mass demand for cash, on the other. That danger should not be dismissed in a period of world fiscal unrest such as we are experiencing.

Post-War Pattern Will Be Repeated.

I am one of that school of economists who believes that the characteristic pattern of business which has followed every war in recorded history will be repeated in our present situation. The so-called double dip—a primary post-war recession of relatively brief duration after the initial sudden upturn which characterizes the end of hostilities—should be followed by an extended period of prosperity, which may well assume the proportions of a dangerous boom. Finally, a secondary post-war depression, perhaps five to ten years hence (an I should guess ten rather than five) is, in my judgment, more or less inevitable. Indeed I am of the opinion that the primary post-war depression has already set in; certainly it has been felt in broad areas of the durable goods industries; but these primary post-war recessions are always selective, affecting some businesses acutely, others hardly at all.

Savings Banks and Depression

Because savings banks draw the bulk of their deposits from those who are the more substantial wage earners, and from there up to those who are in reasonably comfortable financial circumstances, I do not believe that the mutual savings banks have much to worry about from a primary post-war recession. As I have said, I think its effects will be salutary in the long run in checking in some measure the serious inflationary pressures which confront us today.

The fiscal concomitants of the boom period which inevitably will follow should occasion you much more concern. A major inflation could, although I don't think it will, bring about a flight from the dollar which would discourage savings and thrift, and encourage wholesale withdrawals. A boom and bust cycle might load you up with mortgages based on excessive valuations, which could necessitate wholesale foreclosures during any secondary post-war depression. Coupled with a major break in the bond market, such a condition could be catastrophic. Clearly this is a day for the application of wisdom and restraint, for the exercise of the soundest

The United States and the World Crisis

(Continued from page 21)

themselves in the American image.

Undoubtedly this is true to some extent. Many of our leaders—and perhaps many of our people—seem to feel that there is no real distinction between totalitarian communism and the kind of democratic socialism or semi-socialism which is now emerging in most of the Eastern Hemisphere. One has only to visit Scandinavia or Britain — or for that matter, Finland or Czechoslovakia—to see how great is the difference between a totalitarian police state, such as Yugoslavia, and a country in which people can write and talk and think as they please, even though the big landed estates have been broken up and big business has been put under public ownership. It is hard for us to understand that a system which has brought us so many benefits may not be applicable to other peoples. It is even harder to understand that most Europeans and most Asiatics are less afraid of public control or ownership than they are of private monopoly. But it should not be difficult for us to understand that no self-respecting people likes to be told by even the most benevolent outsider how it should run its domestic affairs.

The fact is that a restoration of our kind of free enterprise capitalism in Europe or Asia is a physical impossibility—even if it were desired by the people concerned. The old power groups have been weakened or destroyed. There is little chance for the formation of new private capital. You can't have capitalism without capitalists.

Democratic Socialism on Our Side

If we intend to pursue a constructive foreign policy, we cannot afford to lose any more time in recognizing that democratic socialism is on our side in the struggle to preserve human freedom and dignity. If we fail to recognize this fact, we shall drive some of our best friends into the totalitarian wilderness. It is worth noting in this connection that the recent manifesto of the new Communist International singled out the leaders of democratic socialism in Europe for an attack, more violent even than that upon our so-called economic imperialism. We may not recognize these Socialist leaders as our friends, but the totalitarians recognize them as their most dangerous enemies.

The third recurring theme I found abroad was the impression that a strong, if not dominant, segment of United States opinion considers war with Russia inevitable, and that an important part of this group is actually contemplating a preventive attack upon the Soviet Union with atomic weapons. I do not believe that any responsible official of our government—or, for that matter, any sane citizen — is seriously thinking of such action. Surely it is all too obvious what an atomic war would mean to victor as well as vanquished. Surely it is clear that, even were we to conquer Russia without receiving a scratch in return (which is a most unlikely hypothesis), we should then merely have saddled ourselves with the job of occupying a country considerably larger than our own and of policing a people vastly more numerous. We have some measure of what such an undertaking would mean in our current experience with our zone of Germany, where less than twenty million people are involved.

Will We Have War?

Nevertheless, upon returning from an absence of two months abroad, I myself have been shocked by the pre-occupation of the press and the man in the street with the question of whether and when there is to be war with Russia. I have been shocked at the extent to which we seem to take for granted the continuation of what is now called "the cold war" with the Soviet Union—the extent to which we seem to have forgotten the key sentence in Secretary Marshall's now famous speech at Cambridge last June. That sentence—which cut like a keen fresh wind through the fog of confusion over the so-called Truman Doctrine—read as follows:

"Our policy is not directed against any country or doctrine but against hunger, poverty, desperation and chaos."

I hope those words are still the key to our foreign policy. No matter what the Kremlin may say or do, I am convinced that this sane approach is still the only road to recovery and peace. It is time that we re-affirmed it—in words and in action.

The fourth and last reason I was given, to account for fear of our influence in the world, was our inclination to take unilateral action, and thus to undermine the prestige and effectiveness of the United Nations. The two examples most frequently cited were our intervention in Turkey and Greece, and our present apparent desire not to route Marshall Plan aid through the United Nations machinery. The danger of delay and obstruction in the United Nations channels is recognized, but the fear persists that, by avoiding present difficulties, we may be storing up trouble for the future.

So much for how we look to our friends across the water. This is more important, I think, than how we look to those who may for the moment be blinded by hostile sentiment.

Principles to Be Followed

And now let me put before you, very briefly, what seem to me the essential principles we must follow during the next few months, in order to make a sane policy successful.

First of all, there are certain things we must do here at home. We cannot supply even the world's most urgent needs out of our present exportable surplus of consumer's goods and capital resources. We shall have to re-direct a part of our productive efforts into channels other than those dictated by normal business considerations of making a reasonable profit out of satisfying domestic consumer demand. We shall have to manufacture things that others need at the expense of not making some things that we want ourselves. We shall not only have to produce more, but produce differently—and we shall also have to consume less ourselves.

I believe that, if the American people were given a clear picture of the facts, and what the facts mean in terms of intelligent self-interest, they would be wise enough and generous enough to accept the implications. These implications are not pleasant. I see no sense in being other than completely frank about them.

As I see it, we cannot successfully tackle the job which lies before us unless we recognize and remedy the mistakes we have made in the recent past. Immediately after hostilities ceased, we did three irresponsible things: We cut off Lend Lease without any attempt to work out some sort of a postwar bridge to normal conditions; and we went off food rationing. A few months later we removed price controls and priority allocations. The result of these three actions was to impede the postwar recovery of our friends abroad, and to let our own economy run hog-wild into an unhealthy inflationary spiral. Every housewife knows what this has meant in terms of her market basket.

Let us not waste time over trying to fix the blame for these mistakes. In a sense we were all responsible for them. What concerns us now is to recognize that they **were** mistakes and that they must be rectified. In plain language—and I think we must use plain language even in an election year—we shall have to re-establish some degree of overall planning and control by government, business and farm and labor leadership working together, as they did in wartime. We shall have to control prices and maintain a stable purchasing-power wage level. We shall have to make some things even scarcer than they are today in order to do our job abroad, and this means that we must not only control the price of what remains for the domestic consumer but see to it that what remains is fairly distributed. **You cannot do that by any voluntary rationing.** But I believe that the American people would gladly accept both food rationing and price controls, as well as a certain amount of actual deprivation, if they understood the facts—if they were talked to as grown-ups and not as children—and if they felt that whatever system was put into effect would operate efficiently and, above all, fairly.

Whether or not we face this issue squarely—whether or not the people are given a chance to face it at all in an election year—will, I think, be the supreme test of our two-party system.

The other great test which faces our bi-partisan leadership in the next few months is whether it will have the courage to tell the American people the real facts about the situation which confronts them in the world. Let me give you an example:

In the spring of 1946, Congress authorized a loan of $3,500,000,000 to Great Britain, which was supposed to bridge over the gap of re-conversion. Britain was faced not only with reconversion to peacetime production, but also with an adjustment to the permanent loss of most of her former income from foreign investments. These investments had been sold to buy planes and tanks and guns in order to hold the fort until we made up our minds about Lend-Lease aid. The British knew and said at the time that the amount was insufficient for the purpose. But our negotiators believed that Congress would refuse to appropriate more because, supposedly, the American people wouldn't stand for it. So we built a bridge three-quarters of the way across the river—which is no bridge at all. Had the American people known the facts, I believe they would have wanted to do the whole job—or else nothing.

And that is not all. I am not going into the unwise technical conditions attached to the loan. But an important simple fact—which few people here realize—is that, having made the insufficient loan, we then proceeded to cut it by another 27%. Not because we meant to do any such thing, but because we removed price controls and let our price level sky-rocket out of sight, which meant that the $3,500,000,000 which the British had borrowed would buy only about $2,500,000,000 worth of our goods.

The same sort of thing will happen again to any loans we may make, unless we control our home economy. These are the kind of facts which I think the people are entitled to have placed before them.

Two-Fold Problem

Our government is at this moment struggling with an extremely difficult two-fold problem. In order of ultimate importance the two halves are:

First—how to re-activate world production and world trade so that the various nations and peoples may again become self-supporting.

Second—how to prevent a further calamitous deterioration of world conditions in that interim which must elapse before any recovery plan can be worked out and put into effect.

Chronologically these problems come in the reverse order. If too little is done now in the way of immediate relief at the crucial sectors of the world's economy, the recovery plan will be stillborn. If too much is done merely to stave off catastrophe, not enough resources will be left to prime the pump of world recovery.

Any one who examines the dire needs of the Eastern Hemisphere is at once forced to the grim conclusion that, if United States aid toward putting the world back upon its own feet is to be effective, United States relief of human misery must in itself be held down to the absolute and cruelly insufficient minimum.

Our resources — though great, if we mobilize them under careful control—are not unlimited. We could spend them all on relief, and there would still remain countless cold and hungry millions, with world recovery still just as far away as ever. There is no surer way to fail than to attack the secondary problem of relief as if it were primary.

In allocating our resources to immediate relief and to later recovery measures we must not only carefully restrict the first but also apply to both types of operation the principle of throwing in our weight only at carefully selected points of maximum leverage. Our help must be concentrated at those points from which recovery is most likely to spread into other areas. Once these points are selected, we must make up our minds to throw in at each crucial spot an amount of help which will really accomplish the desired purpose. It will be better to pick fewer spots, and really do the job where we decide to tackle it, than to overreach ourselves in the number of bridges we try to build at the risk of again leaving some of them spanning only part-way across the river.

Qualifications for Maximum Leverage

The qualifications for a point of maximum leverage will necessarily be both economic and political. They might be defined roughly as follows:

(1) Countries or areas which, when re-activated, will become important suppliers or markets for other countries or areas.

(2) Countries or areas which are capable of rapidly re-activating their machinery of production and which require only a type of aid that can be quickly supplied.

(3) Countries which are not going to use external aid to build up or maintain excessive military establishments, or to distort their economies for political reasons (such as striving for autarchy), or merely to improve their living standards at the expense of achieving economic health. And, finally,

(4) Countries which have achieved sufficient political stability to attract private capital. This means not merely the absence of civil strife but the existence of a government which does not permit the draining off of the fruits of production into the pockets of either corrupt officials or predatory private monopolists.

It goes without saying that nations desiring our assistance must qualify by making their maximum efforts at self-help and mutual aid amongst each other—that they must put their financial houses in order and, above all, firmly establish the confidence of their peoples in their governments and in themselves.

These are not absolute yardsticks. Nor can it be expected that any one country or area will conform to all the criteria. But the criteria must exist in order to establish the priorities without which we shall merely waste our resources in a scatter-gun attack, where precision target-shooting is required.

Unfortunately, the simple arithmetic upon which our calculations must be based—especially now, at the beginning — will not always correspond to our predilections nor even to our sense of justice. In Europe, Great Britain is our most obvious point of maximum leverage. Distasteful though it may be, western Germany is probably, because of its coal, the next point from which a limited recovery could most quickly spread into other areas. I say "a limited recovery" because I do not mean to suggest that we rebuild Germany beyond the point necessary quickly to restore the health of her neighbors. Other points in Europe at which a small amount of assistance would probably produce maximum results are the Low Countries, Czechoslovakia and Poland. In Asia there are probably two points of maximum leverage: the rehabilitation of the surplus food producers—Burma, Siam and Indo-China; and — again distastefully — the reactivation of Japanese light industry to produce incentive goods for the entire Continent.

From a political point of view, France, Italy and Greece are the hot-spots of Europe, while China, Korea, India and Pakistan occupy a similar position in Asia. These political hot-spots constitute a two-fold danger to our whole undertaking: first, because their internal instability makes it extremely difficult to appraise just what and how much could be accomplished by a given amount of expenditure; and, second, because our own attitude toward the political issues at stake in these countries is confused by ignorance and prejudice or predilection. In the case of India and China an additional difficulty arises from the sheer magnitude of immediate need on the part of the vast, chronically undernourished populations.

A Caution

One thing is clear: whatever stop-gap aid we render in these humanly and politically important but economically doubtful areas, must be rigorously held within that global sum which we feel can safely be subtracted from the total resources available to finance world recovery. If we allow political anxiety or even humanitarian sympathy to carry us beyond that point, we shall fail both the world and ourselves.

These are some of the unpalatable realities with which, I think, we must quickly become familiar, if we intend to harness our strength to the task in hand.

There remains one other important element — a psychological factor of which an American becomes acutely aware in conversations with Europeans and Asiatics alike. If we are to discharge the great responsibility, which we have not sought but which history has laid upon us, we must learn not to expect gratitude. We must know — and act as if we knew — that we are giving what we give, not out of unselfish generosity or pity, but out of wise self-interest in the common cause of mankind. Saving men's lives matters less than helping them to save their self-respect.

This is perhaps the most difficult requirement we shall have to meet. Here too we shall not fail—if the American people are given the information to which they are entitled and the chance to make their own decision.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Nov. 2	97.0	97.1	94.4	89.4
Equivalent to—					
Steel ingots and castings produced (net tons)	Nov. 2	1,697,400	1,699,200	1,651,900	1,575,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 18	5,268,400	5,245,300	5,199,900	4,732,600
Crude runs to stills—daily average (bbls.)	Oct. 18	5,167,000	5,296,000	5,280,000	4,712,000
Gasoline output (bbls.)	Oct. 18	16,298,000	16,519,000	16,388,000	14,796,000
Kerosine output (bbls.)	Oct. 18	2,176,000	2,253,000	1,993,000	1,906,000
Gas oil and distillate fuel oil output (bbls.)	Oct. 18	6,217,000	6,539,000	6,275,000	5,445,000
Residual fuel oil output (bbls.)	Oct. 18	8,542,000	8,777,000	8,772,000	7,590,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 18	80,912,000	82,202,000	81,987,000	86,653,000
Kerosine (bbls.) at	Oct. 18	22,516,000	23,057,000	22,254,000	21,626,000
Gas oil and distillate fuel oil (bbls.) at	Oct. 18	61,312,000	61,098,000	59,283,000	66,407,000
Residual fuel oil (bbls.) at	Oct. 18	57,776,000	57,279,000	56,934,000	60,808,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 18	954,249	956,862	931,072	931,766
Revenue freight rec'd from connections (number of cars)	Oct. 18	745,287	743,248	712,453	718,000
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Oct. 23	$141,719,000	$91,338,000	$136,183,000	$55,203,000
Private construction	Oct. 23	84,959,000	57,208,000	83,105,000	29,871,000
Public construction	Oct. 23	56,760,000	34,130,000	52,078,000	25,332,000
State and municipal	Oct. 23	50,306,000	29,869,000	43,802,000	24,090,000
Federal	Oct. 23	6,454,000	4,261,000	8,276,000	1,242,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 18	12,610,000	12,750,000	12,240,000	12,787,000
Pennsylvania anthracite (tons)	Oct. 18	1,223,000	*1,330,000	1,256,000	1,199,000
Beehive coke (tons)	Oct. 18	133,300	*135,500	134,100	123,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 18	299	*304	301	295
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 25	4,963,816	4,946,090	4,956,415	4,601,767
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 23	81	75	77	33
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 21	3.19141c	3.19141c	3.19141c	2.73011c
Pig iron (per gross ton)	Oct. 21	$36.96	$36.96	$36.93	$28.13
Scrap steel (per gross ton)	Oct. 21	$41.83	$39.50	$37.75	$19.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 22	21.200c	21.200c	21.225c	14.150c
Export refinery at	Oct. 22	21.300c	21.425c	21.350c	17.300c
Straits tin (New York) at	Oct. 22	80.000c	80.000c	80.000c	52.000c
Lead (New York) at	Oct. 22	15.000c	15.000c	15.000c	8.250c
Lead (St. Louis) at	Oct. 22	14.800c	14.800c	14.800c	8.100c
Zinc (East St. Louis) at	Oct. 22	10.500c	10.500c	10.500c	9.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 28	†102.84	†103.37	†103.83	†103.69
Average corporate	Oct. 28	113.70	113.89	115.04	116.41
Aaa	Oct. 28	118.80	118.80	120.02	121.04
Aa	Oct. 28	116.80	117.00	118.00	119.20
A	Oct. 28	113.50	113.89	115.04	116.02
Baa	Oct. 28	106.04	106.39	107.80	110.15
Railroad Group	Oct. 28	108.52	108.88	110.15	112.00
Public Utilities Group	Oct. 28	115.25	115.24	116.61	117.60
Industrials Group	Oct. 28	117.60	117.60	118.60	120.02
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 28	†2.31	†2.27	†2.24	†2.26
Average corporate	Oct. 28	2.97	2.96	2.90	2.83
Aaa	Oct. 28	2.71	2.71	2.65	2.60
Aa	Oct. 28	2.81	2.80	2.75	2.69
A	Oct. 28	2.98	2.96	2.90	2.85
Baa	Oct. 28	3.39	3.37	3.29	3.16
Railroad Group	Oct. 28	3.25	3.23	3.16	3.03
Public Utilities Group	Oct. 28	2.89	2.89	2.82	2.77
Industrials Group	Oct. 28	2.77	2.77	2.72	2.65
MOODY'S COMMODITY INDEX	Oct. 28	448.3	453.2	429.5	337.0
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Oct. 25	238.6	233.1	231.4	206.2
Fats and oils	Oct. 25	238.6	225.6	234.1	287.4
Farm products	Oct. 25	270.7	269.2	258.6	237.7
Cotton	Oct. 25	315.3	299.9	294.6	331.1
Grains	Oct. 25	308.3	307.8	274.5	220.3
Livestock	Oct. 25	261.3	262.5	256.5	233.2
Fuels	Oct. 25	195.0	190.3	190.6	154.2
Miscellaneous commodities	Oct. 25	173.0	170.9	167.8	149.5
Textiles	Oct. 25	217.6	215.4	214.5	207.8
Metals	Oct. 25	159.5	159.2	159.1	125.0
Building materials	Oct. 25	232.7	232.6	226.5	178.5
Chemicals and drugs	Oct. 25	154.5	152.4	149.6	126.2
Fertilizer materials	Oct. 25	135.5	135.5	134.0	121.9
Fertilizers	Oct. 25	136.9	136.9	135.7	125.1
Farm machinery	Oct. 25	127.1	127.1	127.1	116.6
All groups combined	Oct. 25	217.2	214.3	211.0	184.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 18	162,000	165,049	152,814	155,589
Production (tons)	Oct. 18	185,868	185,582	181,483	161,534
Percentage of activity	Oct. 18	101	102	101	98
Unfilled orders (tons) at	Oct. 18	445,358	471,355	440,769	598,569
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 24	146.2	145.6	143.3	144.2
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Oct. 18	157.9	158.0	158.1	135.1
Farm products	Oct. 18	190.9	190.1	169.8	160.1
Foods	Oct. 18	178.5	180.0	182.3	175.6
Hides and leather products	Oct. 18	190.4	189.2	185.5	141.5
Textile products	Oct. 18	141.2	141.2	140.7	126.3
Fuel and lighting materials	Oct. 18	115.7	115.4	115.0	95.0
Metal and metal products	Oct. 18	151.1	150.7	150.3	114.4
Building materials	Oct. 18	184.0	183.3	180.9	134.2
Chemicals and allied products	Oct. 18	124.7	125.1	122.2	98.8
Housefurnishings goods	Oct. 18	132.7	132.7	131.9	115.7
Miscellaneous commodities	Oct. 18	116.5	116.1	115.1	102.5
Special groups—					
Raw materials	Oct. 18	176.0	175.0	173.6	146.3
Semi-manufactured articles	Oct. 18	152.4	152.1	150.9	117.5
Manufactured products	Oct. 18	151.1	151.7	152.7	133.7
All commodities other than farm products	Oct. 18	150.8	151.0	151.1	129.7
All commodities other than farm products and foods	Oct. 18	139.3	139.0	138.0	112.8

*Revised figure. †Figures are for taxable securities; previous figures given were for non-taxable.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of August:			
Total shipments (thousands of pounds)	101,713	91,527	114,794
AMERICAN GAS ASSOCIATION—For Month of August:			
Total gas sales (M therms)	1,983,820	1,945,809	1,834,181
Natural gas sales (M therms)	1,779,852	1,722,067	1,629,530
Manufacturing gas sales (M therms)	134,098	146,057	136,693
Mixed gas sales (M therms)	69,870	77,685	67,958
AMERICAN PETROLEUM INSTITUTE—Month of July:			
Total domestic production (bbls. of 42 gallons each)	170,257,000	163,483,000	162,144,000
Domestic crude oil output (bbls.)	159,237,000	152,978,000	152,586,000
Natural gasoline output (bbls.)	10,969,000	10,455,000	9,408,000
Benzol output (bbls.)	50,000	50,000	150,000
Crude oil imports (bbls.)	7,294,000	7,628,000	6,978,000
Refined products imports (bbls.)	4,624,000	3,711,000	4,067,000
Indicated consumption—domestic and export (bbls.)	178,951,000	169,265,000	162,373,000
Increase—all stocks (bbls.)	3,223,000	5,557,000	10,816,000
AMERICAN TRUCKING ASSOCIATIONS—Month of August:			
Number of motor carriers reporting	280	*280	280
Volume of freight transported (tons)	2,499,295	*2,439,244	2,450,669
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FED. RESERVE BANK OF NEW YORK—As of Sept. 30:			
Imports	$140,078,000	$132,792,000	$150,000,000
Exports	41,940,000	46,762,000	19,702,000
Domestic shipments	9,210,000	8,407,000	10,959,000
Domestic warehouse credits	14,352,000	11,350,000	12,484,000
Dollar exchange	2,100,000	1,100,000	59,000
Based on goods stored and shipped between foreign countries	11,260,000	5,896,000	6,623,000
Total	$218,940,000	$206,307,000	$199,827,000
COAL OUTPUT (BUREAU OF MINES)—			
Bituminous coal and lignite (net tons)—Month of September	52,350,000	51,020,000	51,922,000
Pennsylvania Anthracite (net tons)—Month of September	5,136,000	4,994,000	5,033,000
Beehive Coke (net tons)—Month of September	563,700	*469,400	500,100
COMMERCIAL PAPER OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of Sept. 30	$241,000,000	$244,000,000	$148,000,000
COTTON AND LINTERS—DEPT. OF COMMERCE—RUNNING BALES—			
Lint—Consumed Month of September	727,448	710,601	819,058
In consuming establishments as of Sept. 30	1,137,516	1,154,267	1,959,310
In public storage as of Sept. 30	2,583,306	833,113	4,331,089
Linters—Consumed Month of September	90,926	81,339	74,556
In consuming establishments as of Sept.	127,766	164,636	156,795
In public storage as of Sept. 30	53,491	51,538	41,641
Cotton spindles active as of Sept. 30	21,410,000	21,197,000	21,643,000
COTTON SEED — DEPT. OF COMMERCE—			
Received at mills (tons) Aug. 1 to Sept. 30	943,425	167,130	570,781
Crushed (tons) Aug. 1 to Sept. 30	447,489	102,148	323,317
Stock (tons) Sept. 30	594,275	163,321	365,270
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—1935-39 Aver.=100)—Month of September:			
Adjusted for seasonal variation	289	*281	270
Without seasonal adjustment	297	*235	278
DEPARTMENT STORE SALES — SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE=100—Month of Sept.:			
Sales (average monthly), unadjusted	239	183	201
Sales (average daily), unadjusted	244	179	214
Sales (average daily), seasonally adjusted	234	246	206
Stocks, unadjusted as of Sept. 30	227	*215	216
Stocks, seasonally adjusted as of Sept. 30	210	*206	200
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of July (000's omitted)	17,307,950	17,546,119	15,607,960
Revenues from ultimate customers—month of July	$305,854,600	$309,630,500	$279,769,309
Number of ultimate customers as of July 31	37,419,113	37,242,938	35,308,680
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE—Month of September:			
Ordinary	$1,047,741,000	$1,104,368,000	$1,125,829,000
Industrial	324,048,000	325,896,000	346,116,000
Group	211,648,000	186,066,000	238,591,000
Total	$1,583,437,000	$1,616,330,000	$1,710,536,000
NEW BUSINESS INCORPORATIONS— DUN BRADSTREET, INC.—Month of Sept.	8,561	8,055	9,551
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S.—HOME LOAN BANK BOARD—Month of August:			
Savings and Loan Associations	$315,305,000	$316,093,000	-------
Insurance companies	70,277,000	71,622,000	-------
Bank and Trust companies	250,612,000	254,765,000	-------
Mutual Savings banks	51,378,000	50,564,000	-------
Individuals	165,781,000	166,541,000	-------
Miscellaneous lending institutions	135,093,000	135,202,000	-------
Total	$988,446,000	$994,787,000	-------
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of July:			
Net railway operating income	60,958,447	60,201,058	63,029,672
Other income	16,589,285	23,124,233	15,553,057
Total income	77,547,732	83,325,291	78,582,729
Miscellaneous deductions from income	2,875,943	4,595,516	3,007,784
Income available for fixed charges	74,671,789	78,729,775	75,574,945
Income after fixed charges	40,322,812	42,052,744	36,803,915
Contingent charges	3,297,828	3,650,353	3,723,071
Net income	37,024,984	38,402,391	33,080,844
Depreciation (way & structures & equip.)	29,444,900	29,478,529	28,460,541
Amortization of defense projects	1,346,250	1,355,617	954,867
Federal income taxes	21,322,717	20,548,355	12,006,575
Dividend appropriations:			
On common stock	3,524,813	11,562,292	3,080,449
On preferred stock	1,365,765	5,438,630	935,075
Ratio of income to fixed charges	2.17	2.15	1.95

*Revised figure.

European Recovery

(Continued from page 15)

live in the greatest food-producing area on earth.

Trained observers of the Department of Agriculture have assessed the situation and reported the reasons in minute detail. In the main, the cause for the immediate situation is unusually bad weather conditions — cold of almost unprecedented intensity last winter that froze seed in the ground, spring floods that washed out crops and topsoil, followed by summer droughts that seared the already meager crops. The disastrous freeze in France, for example, resulted in a 1947 wheat crop that was the worst since they have been keeping records.

Secretary of Agriculture Clinton P. Anderson, who visited Europe this past summer and saw where thousands of tons of precious wheat had been lost, concludes that "western Europe has had a combination of bad circumstances almost without parallel in farming history. Farmers have struggled against too much water in planting season and too little when the grain was coming into maturity. These failures were within a pattern already made dark by lack of seed, fertilizer, and machinery — disaster piled upon earlier disappointment." It is estimated that the reduced production in Europe will mean that European food imports will have to be increased by the equivalent of 250 million bushels of grain, even to maintain the low consumption levels of 1946-1947.

However, these factors, serious as they are, only overlie long-term conditions inherently weak. Western and southern European countries have never produced enough food to maintain without imports what Americans consider a tolerable diet. Before the war, western Europe imported about half its bread grains and a very large proportion of its feed grains from eastern Europe, including eastern Germany. This intra-European trade has not existed to any considerable extent during the last few years. The reasons for this are that crops have also been poor in eastern Europe, and military devastation and political uncertainty have been great. Add to these difficulties the decreased emphasis on large-scale production of grain which results from land tenure reform plans, the lack of fertilizer, and the support of occupying armies. This means but one thing for western Europe—increased reliance on the non-European world.

World food production for the current year will be slightly below last year, a year which only equalled prewar levels. At the same time there has been a substantial gain in total population. In a few countries, including the United States, food consumption is above prewar. In many other countries there is a per capita dietary reduction ranging as high as 25% of prewar.

Spelled out in energy units, the diet of the average non-farm individual in France contains about 2,200 calories a day—about one-fourth less than his prewar intake. In Greece the figure is 2,100, while in Italy, Germany and Austria, the city dweller may fall to less than 1,950 calories a day—more than one-third less than the average American eats today. And it must be remembered that the calorie is only a measure of heat energy that food contains; it tells nothing about balancing proteins, carbohydrates, or fats, nothing about vitamins and, of course, nothing about palatability. It is clear that the European countries must have as their first requirement the elimination of their basic calorie deficiencies in order that workers will have the incentive and strength to produce the coal and other industrial requisites so essential to a broad recovery movement.

Wheat is the most important food in foreign trade because it is the cheapest source of calories in terms of volume and of cost. Luckily, we have had large wheat crops in this country for the last six years, due in part to unusually favorable weather. The 1947 wheat crop in the United States will exceed the highest previous record by more than 200 million bushels. However, bad weather conditions have resulted in a short corn crop here so that our export of corn and other coarse grains will be greatly reduced, and relatively large amounts of domestic wheat are being fed to livestock instead of corn. Exports to Europe from other sources are expected to be somewhat larger than last year, but not enough to offset the failure in European production. Larger American exports of wheat this year are therefore a necessary part of recovery in Europe. As you all know, various voluntary and cooperative measures are being taken to increase the availability of wheat for export. This is very serious business, for wheat is a key item in any foreign aid program.

No blueprint for the reconstruction of Europe's industrial plant is worth the paper it's printed on unless the people who work on it are nourished. The human effort required to achieve increased production cannot come from people who are underfed; interest in upholding the democratic way of life cannot spring from despairing souls who want for bread. The situation, then demands the well-considered generosity and thoughtful sacrifice of every American unless we are to lose all for which we have fought and worked during these critical years. As Secretary of State Marshall pointed out recently: "The connection between the individual American and world affairs is unmistakably clear — our foreign policy has entered the American home and taken a seat at the family table."

Aside from the fact that at present there is barely enough food produced in the world to go around even if it is carefully conserved and equitably distributed, the blunt fact is that the areas where the shortage is most acute are likewise the areas least able to pay for imports of food. This situation is what is commonly referred to as the dollar shortage. In some countries — Italy and France, for example—it actually amounts to a dollar famine. Fundamentally, it stems from an impoverished productive machine and depleted financial reserves. It is brought on when a country is forced to buy from abroad more than it can sell abroad in order to live.

That is exactly what has taken place in the countries of western Europe. Total war left the physical resources of these countries in virtual ruin—industrial plants destroyed, transportation facilities wrecked, mines closed, agricultural lands despoiled. Not only were the essentials to production destroyed or seriously damaged, but the normal ways of doing business were disrupted. Trade, both in and between countries, was limited. Whole economies were dislocated to the extent that they were forced to depend on outside help for the irreducible minimum necessary to sustain life.

And all the while, U. S. productive capacity, not only undamaged but in numerous cases expanded by war, has been turning out goods and services at the record-breaking rate of about $200 billions annually to fill our backlog of needs as well as the requirements from abroad. This very disparity between production in the United States and production in other parts of the world has contributed to the disappearance of dollars in foreign hands. In those countries which have tried to maintain free channels of trade, consumers have turned to American goods to supply their wants, and the result has been a marked reduction in dollar reserves. This in turn has made necessary restrictions against imports from the United States. The relationship is now very clear between the supply of dollars in foreign hands and the volume of American goods which they can buy.

This year it is estimated that we will ship some $15 billion of goods and services abroad. At the same time we will have imported a total of little more than $5 billion worth of goods—a record high but a figure only a little more than one-third the value of our exports. This year's difference is being financed by loans and grants of various kinds, relief appropriations and World Bank loans, and out of the small reserves of gold and foreign exchange still held by some foreign countries. Now, these grants and credits, which can be used for American products only if they consist of or are convertible into dollars, are almost exhausted.

This does not mean that our aid and assistance has gone down the rathole. In the first place, millions of persons are alive today who would have been dead or diseased without food from this country. In the second place, much reconstruction has been done—railroads are operating, ports are cleared for traffic, roads are repaired, and factories are ready for operation through reconstruction made possible by American supplies and equipment. Finally, the necessary raw materials like coal, cotton and copper, which used to be purchased with exports, have been made available to permit their factories to operate. All these have made progress possible, and many nations are now back to industrial production levels in the neighborhood of 90 to 100% of 1938. However, much of this production itself has gone into reconstruction, and exports have not increased sufficiently to make any appreciable dent in the trade deficit. And the appropriations which have been made by the Congress are running out.

More Assistance Needed

During the spring, it became increasingly apparent that more assistance would be required from the United States. Country after country was indicating in conversations in Washington, that its efforts to achieve recovery were still dependent upon American assistance. This had been evident for some time and we added item after item to our program of postwar assistance. However, this kind of piecemeal approach became less and less satisfactory, both to those responsible for our foreign policy and those concerned with government expenditures.

Furthermore, it became increasingly apparent that the problems could not be evaluated in terms of individual countries. Each country found it difficult to plan ahead in the absence of knowledge about the plans and probable course of other countries with which it had important trade and financial relations. The bottlenecks limiting a country's progress have not always been within its own borders.

On June 5, in a speech at Harvard University, Secretary Marshall stated that before the United States could proceed much further in its efforts to facilitate European recovery, the countries involved should agree on the requirements of the situation and what they themselves could do through a joint effort, in order that the United States could feel assured that assistance which it might give would be effective.

This suggestion met with a ready and vigorous response. In fact, the Committee of European Economic Cooperation, representing 16 nations, which met at Paris in response to the suggestion of Secretary Marshall, has now made its first report. After more than two months of study, analyzing European resources and requirements, the Committee has developed a coordinated program to achieve recovery and free western Europe of dependence on outside help. Its report contains striking evidence of the sincerity of these nations in attempting to increase production and overcome the bottlenecks which have plagued their recovery thus far.

The Recovery Program

The recovery program is designed to achieve certain specific goals which will result in a self-sustaining economy by 1951. Increased production keynotes the entire program, as a glance at the objectives for 1951 will show:

(1) Restoration of prewar bread grain and other cereal production, with large increases above prewar in sugar and potatoes, some increases in oils and fats, and as fast as expansion in livestock products as supplies of feeding stuffs will allow;

(2) Increase of coal output to 584 million tons, that is 145 million tons above the 1947 level (an increase of one-third) and 30 million tons above the 1938 level;

(3) Expansion of electricity output by nearly 70,000 million kwh or 40% above 1947 and a growth of generating capacity by over 25 million kwh. or two-thirds above prewar;

(4) Development of oil refining capacity in terms of crude oil by 17 million tons to two and one-half times the prewar level;

(5) Increase of crude steel production by 80% above 1947 to a level of 55 million tons or 10 million tons (20%) above 1938;

(6) Expansion of inland transport facilities to carry a 25% greater load in 1951 than in 1938;

(7) Restoration of prewar merchant fleets of the participating countries by 1951.

In the main, European production will supply the capital equipment needed for these expansions.

These goals are based on the assumption of assistance from the United States during the next four years. The report of the Paris Conference is an estimate of the deficit anticipated by the 16 participating countries and the recognition of availabilities in the Western Hemisphere. It suggests the need for assistance in commodities and credits over the four years totaling approximately $22 billion, of which the United States would be asked to contribute about $16 billions.

Meanwhile, the United States Government has taken steps to determine what it can safely and wisely undertake. A committee headed by Secretary of the Interior Krug has been appointed to survey the impact of foreign aid on the raw materials and natural resources of this country and has already made its report. A second committee headed by Dr. Nourse of the Council of Economic Advisers was appointed to examine the affects of assistance on the American economy as a whole. Finally, a third committee of private citizens headed by Secretary of Commerce Harriman is examining the ability of the United States to meet the requirements of European nations in their recovery plan. Its survey is expected to be completed soon after the end of this month.

The Report of the Committee of European Economic Cooperation analyzes the present condition of Europe and lays out a definite course of action. It recognizes that there is no single panacea, no simple remedy, but that steps must be taken in many directions. It sets up production targets. It proposes steps which are being taken and will be taken to bring about internal stabilization. It proposes combined or coordinated action to solve production problems and to provide for the free and efficient flow of goods and labor. It looks towards the eventual solution of the problem of deficits with the American continent, primarily by reduced requirements as its own production increases and by increased exports. All in all, it is an extraordinary document when one considers that it was prepared in less than ten weeks, that it constitutes agreement by 16 countries, and that each country has pledged itself to use all its efforts in making its full contribution to the program.

Of particular interest, is the attitude expressed towards restrictions on trade. As you all know, the lack of convertible currencies and the shortage of commodities have reduced European trade virtually to a barter basis, with detailed export and import controls applying to practically all commodities. This is, of course, not true only of European countries, and these same restrictions elsewhere have had their retarding effect upon European progress. The member countries have agreed "to abolish as soon as possible the abnormal restrictions which at present hamper their mutual trade," and "to aim, as between themselves and the rest of the world, at a sound and balanced multilateral trading system based on the principles which have guided the framers of the Draft Charter for an International Trade Organization."

In the last analysis, it is by principles such as this that the Report must be judged, rather than its statistical estimates. We can be certain of one thing, that any estimate of requirements for the next four years is bound to be wrong. For such a period, no one can do more than guess, and there are many uncertainties which no man can foresee. The figures in the Report are useful as indicating the general order of magnitude of assistance which its authors feel is required, but they would be the first to insist that they are much less certain of their figures as they leave the more clearly known elements of the immediate requirements. They can be more definite in describing the course which they propose to follow in their joint effort to achieve recovery.

Germany Not Given Priority

I should like to comment on one assertion that has been made many times in the foreign press, that Germany is to be given some kind of priority in the European recovery program. The United States has a special responsibility in this case. It is true that we believe that the German economic situation must be improved. Germany is not only in bankruptcy today, but it constitutes a serious drag on the economic recovery of all of Europe. With production at 40% of prewar; with coal, steel, and fertilizer at exceedingly low levels, it seriously limits the progress that can be made elsewhere. Prosperity is indivisible. It is equally true that depression is indivisible. The lag in German production is clearly too great for the good of Europe. A program to lift German production somewhat above its present low level can hardly be regarded either as giving priority to German recovery, as if that were something entirely apart from European recovery, or as recreating the German giant which has twice plunged the world into war. We are fully conscious of the need for security control over Germany, and have offered, among other steps, to join in the enforcement of a security

treaty which would assure continued demilitarization through inspection for 40 years. But on the economic front, increased German production is a necessary part of any European recovery program, and should be included therein.

Humanitarian Aspects

Certainly there can be no question that there are humanitarian aspects involved in the immediate steps we are taking to relieve a hungry Europe as well as in the long-range aid for complete and lasting recovery envisaged by the Paris Committee. But the overriding consideration, it seems to me, is that we cannot fail Europe for our own sake. There are many good reasons for this.

I do not wish to over-emphasize the economic factor. This is not a matter where careful calculation in economic terms should decide what course we should follow. As a matter of fact, no such calculation can be made. No one can assure us with finality that any recovery program will prove effective. But we do know that we have many economic ties with Europe, that we are accustomed to buy and sell in the European market, and that a collapse in Europe will require considerable readjustment in our own economy.

But the issue should be decided on a broader basis than that. Two world wars should have taught us that we cannot isolate ourselves from the inevitable consequences of major happenings abroad. History proves that we cannot remain secure when the countries of Europe, with whom we are intimately connected by ties of race, thought and technology, are threatened by violence or destitution. In our own self-interest, we cannot afford to let Europe walk the last mile down the road to ruin.

What may happen in Europe if we do not help stabilize conditions there is problematical. The Paris report has this to say: "If nothing is done, a catastrophe will develop as stocks become exhausted. If too little is done, and if it is done too late, it will be impossible to provide the momentum needed to get the program under way. Life in Europe will become increasingly unstable and uncertain, industries will grind to a gradual halt for lack of materials and fuel, and the food supply of Europe will diminish and begin to disappear."

First would come chaos, and out of that would come tyranny, perhaps Communism, perhaps resurgent Fascism. In all likelihood, the European civilization from which ours descended would eventually be blotted out and a new Dark Age would descend upon the continent. And the values which we have and continue to receive from that part of the world's culture and civilization would be lost to us.

Fortunately, we have a brighter alternative to that grim and depressing prospect. By some sacrifices now we can envisage at least the possibility of a prosperous, stable, and democratic Europe. By extending our vision and exerting our strength now we will not deny ourselves the chance of having a strong and friendly partner that will work with us in expanding world prosperity. It is a momentous decision, yet I cannot see that the choice is difficult. One way lies certain disaster for Europe; the other offers a real possibility of European recovery.

Americans willingly made sacrifices and worked much harder during the war to make certain an Allied victory and the right to decide for ourselves the kind of a world we want to live in. Surely we are willing to make lesser sacrifices now in order to maintain and defend the principles for which we fought.

Comments on Technical Market Formulas

(Continued from page 4)

which can be shown to have always come closer to the tops and bottoms?

I believe it is a fair statement to say that over the last 20, 30, or 40 years, there is not one investor in a thousand who has done better on his judgment than he would have by following the Dow Theory which, after all, would have saved him grief in 1929-1933, given him a good profit in the 1932-1937 bull market, lost a little for him in 1938-1940, and made a good profit again in 1942-1946.

I am not defending the Dow Theory. I have no use for it, particularly as generally expounded. But I do think it is only fair to admit that it will make money in the long run, whereas most people who try to beat the market, do not.

* * *

In his formula plan comments, Mr. May is apparently familiar with only a few such plans. He is right on the types he mentions, but the Burlingame Plan, for example, will always function even if there is a "permanent new era" with a price range of 200 to 1,000. A formula plan is not expected to make spectacular profits, but an 8% average return with virtually no risk or work is surely not unattractive.

* * *

A good many "ratio-ists" are, as Mr. May says, bewitched by patterns of the past and are acting without any real logic. Nevertheless, that does not put anyone who may wish to use a ratio for some purpose in the lunatic class.

For instance, back at one point in July of last year, the market (Dow-Jones Industrial Average) was around 204 with a range so far for the year of 212 to 186. In other words, it was much nearer the high than the low, and if the Average was a good reflection of the market as a whole, there should have been few new lows being made daily and many more new highs in individual issues. Instead, it was just the reverse. On one day in this period with the Average around 204, there were only nine new highs while there were actually 61 new lows.

Simple common-sense observation of this fact told anyone with market experience that the market was actually much weaker than it seemed on the surface, a phenomenon invariably appearing around major tops.

Now, I happen to use a moving average ratio of new lows and highs just because it gives me a clearer picture of what is going on in this particular respect than I can get by reading the raw data every morning. I submit that because I use such a ratio, I am not bemused by fallacies of past performance any more than it would be a fallacy to assume that the approach of heavy black clouds means rain.

There are certain characteristics in market behavior common to all major changes of trend for very obvious and logical reasons, "under-surface" strength or weakness being one. It is just plain common sense to look for them, and if a ratio makes the visualization easier, should one eschew it because he might be labeled a "chart fiend"?

GARFIELD A. DREW
Director of Accounts
United Investment Counsel
Oct. 27, 1947

Editor, "Commercial & Financial Chronicle":

You've probably received many letters criticizing A. Wilfred May for a biased presentation of the statistical table included in his article of Oct. 23 "What Profit from Dow Theory?" Mr. May showed how any "Dowist" buying in at the bull confirmation points and selling out at the bear confirmation points would have missed large proportions of actual market rises during the past 50 years. Unfortunately, he left an obviously open door to Dow followers who may say "Don't merely look at what we missed: look also at what we accomplished!" I'd like to try to close this door.

Any fair attempt to do this must include:

(1) A *demonstration* of what, in theory, could have been done;

(2) A *comparison* of these results with those which might have been accomplished by followers of other investment theories; and,

(3) An *analysis* of such relevant factors as risks assumed, and difficulties encountered.

In the demonstration, I have tried to approximate present conditions by estimating the effect of income and capital gain taxes, and brokerage commissions. Using the data in Mr. May's table, I assumed that $100 of a "Dow Jones Industrial Average, Inc." was purchased at 45 in June of 1897 and sold at 64 in December of 1899. Dividend income was estimated at 3% (rather than 5 or 6%, to allow for income taxes) and added to principal. The following table traces the growth of the initial $100 as our Dowist buys 100% into the market at each bull confirmation, and sells 100% out of the market at each bear confirmation point:

TABLE I

No. of Mos.	DJIA Range	% Rise	Amt. In (net)	Amt. Out (gross)	(Plus) Dividends	(Less) Cap. Gain Taxes	(Less) Broker's Comm.
30	45- 64	42.30	$100.00	$142.30	9.09	10.57	.97
32	59- 60	1.70	139.85	142.23	11.28	.60	1.13
21	51- 92	80.40	151.78	273.31	11.17	30.51	1.70
25	70- 84	20.00	252.77	303.32	17.38	12.64	2.22
27	81- 84	3.71	305.84	317.19	21.03	2.84	2.49
28	65- 86	32.30	332.89	440.41	27.07	26.38	3.09
21	82- 99	20.75	438.01	528.90	25.38	22.72	3.87
16	83- 90	8.44	527.69	572.23	22.00	11.13	4.40
70	93-305	228.00	578.70	1,898.14	216.72	329.86	9.91
52	84-164	95.30	1,775.09	3,466.75	340.72	422.91	20.97
9	127-131	3.15	3,363.59	3,469.54	76.87	26.49	27.33
6	142-145	2.11	3,492.59	3,566.28	52.94	18.42	28.24
27	145-178	22.80	3,572.53	4,387.10	268.64	203.64	31.84
	Final Balance		$4,420.26				

NOTES:

(1) Although no claim is made for accuracy, it is believed the above figures are approximately correct.

(2) Dividends are based on an annual yield of 3% of the *average* of the amount in and amount out, figured for the total number of months of each swing.

(3) Capital gain taxes are figured on the present maximum basis of 25% of profit, it being assumed that all transactions represented long-term capital gains (including the next to last, which is doubtful).

(4) Brokerage commissions are estimated by figuring 0.4% of the total of the amount in and amount out, in each case.

(5) The "amount in" is the preceding "amount out" after adding dividends and subtracting both capital gain taxes and brokerage commissions.

On casual examination, a capital appreciation of 4300% over a period of less than 50 years would appear to be excellent. But what might other investment methods have accomplished? I am almost certain, as an example, that Mr. H. G. Carpenter could show how a formula timing plan, with net dividend income added to capital rather than eliminated (as in his published examples), would better this result appreciably. Since this opinion, however, is not likely to impress Dow theorists I have selected for comparison what they may consider one of the *least* productive investment management methods: buy and hold.

If a "buy & hold" man had bought the same $100 of DJIA, INC. at 45 and (as did the Dowist) purchased additional stock with net dividend income at the end of each actual bull and bear swing, his capital in September of 1946 would have amounted to about $2,100. (As a matter of fact, if he bought additional stock with his dividends *as received*, or at the *end of each year*, he would have done substantially better.) But assuming he finished with only $2,100, and even deducting capital gain taxes (selling him out at the end for an absolutely fair comparison) we find him with $1,600 as against the Dowist's $4,400.

In seeking a standard by which to compare these two results, I decided that the fairest was from the point of view of compound interest. In other words, if $100 is put in a compound interest account (interest compounded monthly) for 50 years, what annual rates would accumulate $4,400 and $1,600? I found that 7.6% would develop approximately $4,417, and 5.6% approximately $1,672.

It is seen, therefore, that the Dow follower, in effect, gained but slightly more than 2% per annum over the man that bought and held!

An appraisal of the risk element must remain essentially a matter of individual judgment. Since even the most ardent Dow enthusiast does not claim infallibility for his theory, and remembering that our Dowist made 13 complete in and out transactions, I think the risk assumed must be considered relatively large. In general, furthermore, I think it will be admitted that the person who buys and holds the DJIA stocks is assuming a relatively small risk.

Does an extra 2% per year warrant the assumption of a considerably larger risk? That, again, is a question which can be answered only by the individual investor, for himself. But in order to substantiate my opinion that a 2% difference should not involve a large risk differential, I offer (without comment) the following table:

Type of Security—	Approx. Yield
Short term Government bonds	1.2%
Grade A RR. bonds, or high-grade pfd. stocks	3.2%
Low grade preferreds, or DJIA stocks	5.2%
Average of about 20 Railroad stocks	7.2%
Speculative stocks	9.2% (and higher)

Finally, what about the difficulties which might have been encountered by our hypothetical Dowist? In the first place, tremendous psychological odds would have been against him. 38% of the time, or almost 19 years. he would have been out of the market. As an example of this, he would have had to sell out in January of 1940 and sit on his funds for almost 4½ years. The fact that he would have had to buy in again at exactly the level at which he sold out is not the important point: consider, rather, the psychological implications involved in sitting on the side-lines for over four long years, watching dividend income, stock splits, rights, stock dividends, and special situation buying opportunities, etc., all passing by.

And even if this psychological block could be surmounted, consider the practical problems. I'm sure Mr. May intends in a future article to examine the results of an influx of buying or selling orders at a Dow confirmation point. These results (I think Mr. May will show) would necessitate considerable and expensive (for the Dowist) changes in our tabulation. Where we have listed him, for example, as buying in at 59 and selling out at 60, it is more probable that he would have had to buy in at 62 and sell out at 57. This not unreasonable adjustment would change a one-point gain into a five-point loss!

Again, it has been assumed that Dow theory confirmation points were immediately recognized at the time. I hope Mr. May can publish excerpts from the forecasts of prominent Dow authorities. This might indicate whether or not their consensus, at particular times chosen at random, is sufficiently clear, definite, and unanimous even to permit of specific action by one who wished to follow it. If not, if there is confusion, hedging, or disagreement, how could a real-life would-be Dowist hope to achieve results even remotely comparable to those of our man of straw?

In conclusion, although I have long been an appreciative reader of Mr. May's interesting columns, never before have I enjoyed a series so much as his present one on forecasting. I look forward eagerly to his next article . . . with just one slight reservation: I hope that hereafter Mr. May will leave statistics to the chartists and confine himself to the keen analytical "Observations" at which, in my opinion, he tops the field.

JOHN E. LOSHAR
New York, N. Y.
Oct. 27, 1947

Textron Develops New Quick Dry Textile

A new quick-drying textile fabric and finish that eliminates the drudgery of ironing has been developed by Textron, Incorporated, and it is anticipated that its impact will revolutionize the women's lingerie business according to announcement by Royal Little, President of the company. The new fabric will "neither shrink, sag, bag, cling nor run, and its silk-like finish—product of a year of experimentation—has the advantage of a durability the silk never had." In a test a new light-weight slip of the material dried in 11½ minutes with the aid of an electric fan, and a medium-weight one in 15 minutes; neither garment required ironing.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• ABC Vending Corp., New York (10/30)

Oct. 23 (letter of notification) 13,300 shares of common stock (par $1). **Price**—$7.50 per share. **Offered**—To persons representing important customers and to certain key employees with a view toward benefiting company's business. Stock is being sold by stockholders who will retain the proceeds.

American Cladmetals Co. (11/5-10)

Oct. 10 filed 1,000,000 shares ($1 par) common. **Underwriter**—Mercer Hicks & Co., New York. **Price**—$1.50 a share. **Proceeds**—To buy machinery and equipment for commercial operations. **Business** — The company was organized in 1945 for the manufacture of cladmetals.

American Fire and Casualty Co., Orlando, Fla.

Oct. 10 (letter of notification) 12,500 shares ($10 par) common. **Price**—$24 a share. Stock will be offered for subscription to stockholders on basis of one new share for each two shares held. **Underwriter**—Southeastern Securities Corp., Jacksonville, Fla. For investment in securities.

• Americana Furniture, Inc., North Little Rock, Ark.

Oct. 23 filed 100,000 shares (10¢ par) common and an additional 285,000 shares of common issuable upon conversion of the preferred and exercise of 35,000 common stock warrants to be sold to underwriters. **Underwriters**—Gearhart & Co., Inc., New York, and Herbert W. Schaefer & Co., Baltimore, Md. **Offering**—To be offered publicly in units of one share of preferred and one share of common. **Price** — $5.10 per unit. **Proceeds** — To finance completion of its factory and for working capital. **Business**—The company is being incorporated this month and plans to engage in the business of manufacturing furniture.

• American Hostess, Inc., Akron, O.

Oct. 21 (letter of notification) 80 shares ($100 par) common and 2,500 shares ($10 par) 6% cumulative preferred. To be sold at par. No underwriting. For working capital.

• American-Marietta Co., Chicago

Oct. 24 filed 130,0000 shares ($2 par) common. **Underwriter**—The First Boston Corp., New York. **Offering**—125,000 shares will be offered publicly and 5,000 to certain executive personnel. Price by amendment. **Proceeds**—To finance expansion of operations. **Business**—Paint manufacturer.

• Appalachian Electric Power Co., Roanoke, Va.

Oct. 29 filed $28,000,000 first mortgage bonds, due 1977, and 75,000 shares of cumulative preferred. **Underwriting**—The bonds will be offered at competitive bidding. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co. **Offering**—New preferred will be offered to holders of its outstanding 4½% cumulative preferred on the basis of one new share for each four shares held. **Proceeds**—For retirement of debt and partial financing of new construction. **Business**—Public utility.

Associated Telephone Co., Ltd. (11/3)

Oct. 16 filed $6,000,000 first mortgage bonds series D due 1977 and 150,000 shares of cumulative preferred stock (par $20). **Underwriters**—Names to be supplied through competitive bidding. **Probable Bidders**—Paine Webber, Jackson & Curtis; Stone & Webster Securities Corp., and Mitchum, Tully & Co. (jointly); White, Weld & Co.; Kidder, Peabody & Co., and Lazard Freres & Co. (jointly); Halsey, Stuart & Co. Inc. (bonds only). **Proceeds**—To reimburse treasury for capital expenditures. **Bids**—Expected bids will be received Nov. 3.

• Austin (Texas) Consumers Cooperative, Inc.

Oct. 22 (letter of notification) 1,500 shares of common and 500 shares of preferred. **Price**—$25 a share. No underwriting. For business operations.

• Cal-Creek Placers, Inc., Enumclaw, Wash.

Oct. 21 (letter of notification) 400,000 shares (1¢ par) common. **Price**—50¢ a share. No underwriting. For mining exploration and development.

• California Oregon Power Co., Medford, Ore.

Oct. 28 filed 42,000 shares ($100 par) 4.70% series preferred and 42,000 shares ($20 par) common. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane, San Francisco, and E. M. Adams & Co., Portland, Ore. **Offering**—The preferred shares will be exchanged for outstanding shares of 6% preferred, series of 1927, on a share for share basis, with a cash adjustment. Unexchanged shares of new preferred and common will be sold publicly. **Price**—By amendment. **Proceeds**—To redeem unexchanged shares of old preferred. **Business**—Public utility.

California Water Service Co.

Oct. 21 filed $1,500,000 first mortgage 3¼% bonds, series C, to be sold through competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Union Securities Corp. Company also filed 15,652 common shares (par $25) to be underwritten by Dean Witter & Co. **Proceeds**—Will be used to retire $900,000 bank loans, to reimburse the treasury for expenditures on construction and for other corporate purposes.

Camden (N. J.) Fire Ins. Association (11/7)

Sept. 19 filed 100,000 shares ($5 par) capital stock. **Underwriter**—Butcher & Sherrerd, Philadelphia. **Offering**—Shares are offered to stockholders of record Oct. 22 in the ratio of one new share for each four shares held. Rights expire Nov. 6. Unsubscribed shares will be sold publicly. **Price**—$17 per share to warrant holders. **Proceeds**—To increase capital funds.

• Candimat Co., Baltimore, Md.

Oct. 27 (letter of notification) 720 shares of 5% cumulative preferred. **Price**—$100 a share. No underwriting. To buy additional vending machines and merchandise for sale in machines.

Carolina Power & Light Co., Raleigh, N. C.

Oct. 8 filed 90,935 shares (no par) common. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Offering**—Stockholders of record Oct. 29 will be given the right to subscribe on or before Nov. 20 on the basis of one new share for each 10 now held. Unsubscribed shares will be offered publicly through underwriters. Price by amendment. **Proceeds**—For construction program.

• Carpenter Paper Co., Omaha, Neb.

Oct. 27 filed 40,000 shares ($1 par) common. **Underwriter**—Kirkpatrick-Pettis Co., Omaha. Price by amendment. **Proceeds**—To be added to general funds. **Business**—Paper business.

Central Helicopters, Inc., Seattle, Wash.

Oct. 9 (letter of notification) $140,000 of 5% notes, due 1957, and 3,800 shares ($1 par) common. Notes to be sold at face amount and the common at $1 a share. **Underwriter**—H. P. Pratt and Co., Seattle, Wash. For reduction of current liabilities and purchase of additional helicopters.

• Central Louisiana Electric Co., Inc., Alexandria, La.

Oct. 20 (letter of notification) 11,519 shares ($10 par) common. **Price**—$25.50 a share. If selling agents are engaged names will be filed by amendment. To reimburse company's treasury.

Cleveland (Ohio) Electric Illuminating Co.

Sept. 26 filed 254,989 shares (no par) preferred, series of 1947. **Underwriter** — Dillon, Read & Co., New York. **Offering**—To be offered share for share plus a cash adjustment for outstanding $4.50 preferred. Unexchanged shares of new preferred will be sold publicly. Price by amendment. **Proceeds**—To retire unexchanged shares of old preferred. Offering indefinitely postponed.

Colorado Central Power Co., Golden, Colo.

Sept. 8 (letter of notification) 9,872 shares ($10 par) common. **Price**—$30 a share. Company will sell the stock through investment bankers or security dealers and pay a commission of $1.25 a share. Proceeds will be used to repay a $100,000 loan and to reimburse its treasury cash.

Consolidated Edison Co. of N. Y., Inc. (11/18)

Oct. 17 filed $30,000,000 25-year 1st & refunding mtge. bonds, Series D. Underwriting to be determined by competitive bidding. **Probable Bidders**—Morgan Stanley & Co., The First Boston Corp., Halsey, Stuart & Co. Inc. **Proceeds**—To redeem $30,000,000 of 3½% 20-year debentures due 1958, at 102. Opening of bids tentatively scheduled for Nov. 18.

Davis Mfg., Inc., Wichita, Kansas

Oct. 15 (letter of notification) 9,000 shares of common. **Price**—$11 a share. Being sold on behalf of Charles J. Davis, President of the company. **Underwriter**—Dempsey-Tegeler & Co., St. Louis, Mo.

• Debutante Register Foundation, Inc., New York (11/3)

Oct. 27 (letter of notification) 750 shares of 6% preferred stock (par $100). **Price**—$100 per share. **Underwriter**—Charles Conrad, Oldwick, N. J., Vice-President in charge of advertising. Expansion in the compiling, editing and publishing two publications: "The Debutante Register" and "The Debutante Tradition."

• DeSoto Candies, Inc., Miami, Fla.

Oct. 22 (letter of notification) 5,000 shares of 6% cumulative preferred and 19,655 shares of common. 5,000 shares of preferred and common will be offered in units of one each at $30 a unit, 4,655 shares of common will be sold at $10 a share and 10,000 shares of common will be held for conversion purposes. No underwriting. To retire debt and for working capital.

Dogpaw Gold Mines Ltd., Toronto

Oct. 22 filed 1,000,000 shares ($1 par) capital stock. **Underwriter**—Name to be filed by amendment. Price by amendment. **Proceeds**—To develop mining properties in Flint Lake locality of Ontario.

• Doughboy Bottling Co., Pittsburgh, Pa.

Oct. 24 (letter of notification) 50,000 shares of 6% preferred ($5 par). **Price**—$5.75 a share. **Underwriter**—McLaughlin, Macafee & Co., Pittsburgh, to acquire and equip a bottling plant.

• Duvernoy & Sons, Inc., New York (11/3)

Oct. 27 (letter of notification) 1,614 shares of 5% cumulative preferred stock (par $100). **Price**—$100 per share. **Underwriting**—None. General corporate purposes.

• East Eagle Mining Co., Seattle, Wash.

Oct. 20 (letter of notification) 200,000 shares of common. No underwriting. For mine development.

• East Utah Mining Co., Salt Lake City

Oct. 27 filed 1,075,000 shares (10¢ par) common. **Underwriter**—F. Eberstadt & Co., New York. **Offering**—To be offered to common stockholders at 30¢ a share. Unsubscribed shares will be offered publicly. **Proceeds**—To develop mining properties in Wasatch County, Utah. **Business**—Mining business.

Electric Steam Sterlizing Co., Inc., N. Y.

Sept. 22 (letter of notification) 65,000 shares of common stock (par 10¢). **Price**—65 cents per share. **Underwriter**—Reich & Co., New York. Purchase of inventory, etc.

Empire Projector Corp., New York

Aug. 21 (letter of notification) 80,000 shares ($1 par) common on behalf of the company, and 15,000 shares ($1 par) common on behalf of officers and stockholders. The 80,000 shares will be sold at $3 a share. The 15,000 shares will be sold to L. D. Sherman & Co., New York, the principal underwriter, at 60 cents a share. The underwriting discount for 80,000 shares will be 50 cents a share. The company will use its proceeds to increase working capital.

Florida Rami Products, Inc. (11/6)

Aug. 1 (letter of notification) 100,000 shares ($1 par) class A common. **Price**—$3 a share. **Underwriter**—Batkin, Jacobs & Co., New York. To purchase new machines and equipment, to pay off some current liabilities and to add to working capital.

Frailey Industries, Inc., New York

Sept. 26 (letter of notification) 34,500 shares of class A stock (par $1). **Price**—$5 per share. **Underwriter**—Edward R. Parker Co., Inc., New York. Expand sales of products, etc.

Fraser Products Co., Detroit, Mich.

Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$7 a share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds.

• Gabriel Co., Cleveland

Oct. 24 (letter of notification) 10,000 shares ($1 par) common, on behalf of Wm. H. Miller, a director of the company, to be sold at market. **Underwriter**—Sills, Minton & Co., Chicago.

General American Transportation Corp. (11/6)

Oct. 17 filed 150,000 shares of Series A preferred. **Underwriter**—Kuhn, Loeb & Co., New York. **Price**—$105 a share. **Proceeds**—To pay off indebtedness and for working capital.

Gold Ridge, Inc., New York

Oct. 20 (letter of notification) 45,000 shares of capital stock (par $1). **Price**—$1 per share. **Underwriter**—Stein Bros. & Boyce, Baltimore. Proceeds for working capital.

Graham-Paige Motors Corp., N. Y. (11/5-7)

Oct. 17 filed 233,320 shares ($1 par) common. **Underwriter**—Allen & Co., New York. Price by amendment. **Proceeds**—To repay bank loans and for working capital.

NEW ISSUE CALENDAR

October 30, 1947

ABC Vending Corp.____Common

November 3, 1947

Associated Telephone Co., Ltd.____Bonds and Pref.
Debutante Register Foundation____Preferred
Duvernoy & Sons, Inc.____Preferred
Greil Drug & Chemical Co.____Preferred
Indianapolis Power & Light Co.____Common
Portland General Electric Co., Noon (EST)____Bonds
Public Service Co. of Ind., Noon (CST)____Bonds

November 5, 1947

American Cladmetals Co.____Common
Graham-Paige Motors Corp.____Common
Publix Shirt Corp.____Common
Wisconsin Pub. Serv. Co., 11:30 a.m. (CST)____Bonds

November 6, 1947

Florida Rami Products, Inc.____Common
General American Transportation Corp.____Preferred
Lemke (B. L.) & Co., Inc.____Common
Macy (R. H.) & Co. Inc.____Debentures
Standard Oil Co.____Common

November 7, 1947

Camden Fire Ins. Association____Capital Stock
Mass. Bonding & Ins. Co.____Capital Stock
West Disinfecting Co.____Preferred and Com.

November 10, 1947

Heyden Chemical Corp.____Debentures
New London Freight Lines Inc.____Common

November 12, 1947

Peabody Coal Co.____Bonds
Wheeling & Lake Erie Ry.____Equip. Trust Ctfs.

November 17, 1947

Liberty Loan Corp., Chicago____Preferred

November 18, 1947

Consolidated Edison Co. of N. Y. Inc.____Debentures

● **Greil Drug & Chemical Co., Pittsburgh (11/3)**

Oct. 28 (letter of notification) 40,000 shares of 5% cumulative convertible preferred stock (par $3); 200,000 shares of common stock B (par 60¢) reserved for issuance upon conversion of preferred. **Price**—$3 per share. **Underwriting**—None. Not to exceed 15,000 shares of preferred will be offered to certain trade creditors in satisfaction of outstanding indebtedness.

● **Harbor Plywood Corp., Hoquiam, Wash.**

Oct. 24 filed 538,005 shares ($1 par) common. **Underwriters**—Eastman, Dillon & Co., New York, and First California Co., Inc., San Francisco. Price by amendment. **Proceeds**—To pay off bank loans and to finance construction of new facilities. **Business**—Manufacture of plywood products.

Hawaiian-Philippine Co., Manila, P. I.

Sept. 24 filed 500,000 shares 7% cumulative preferred, par 10 Philippines pesos per share (currency basis one peco equivalent to 50 cents). **Underwriting**—No underwriting. **Offering**—For subscription by common stockholders on the basis of one share for each 1¼ shares owned. **Price**—$5 a share. **Proceeds**—For rehabilitation program.

Heyden Chemical Corp. (11/10)

Oct. 22 filed $6,000,000 15-year debentures. **Underwriter**—A. G. Becker & Co., Inc. Price by amendment. **Proceeds**—To pay off a bank loan and for expansion and additional working capital.

Hickok Manufacturing Co., Inc., Rochester, New York

Sept. 19 filed 200,000 shares ($1 par) common. **Underwriter**—E. H. Rollins & Sons, Inc., New York. **Price**—By amendment. **Proceeds**—The shares are being sold by 36 stockholders who will receive proceeds. Offering postponed indefinitely.

● **Hilo (Hawaii) Electric Light Co.**

Oct. 27 filed 25,000 shares ($20 par) common. **Underwriting** — None. Unsubscribed shares will be sold at auction after Dec. 22, when subscription warrants expire. **Offering**—For subscription to common stockholders on the basis of one share for each two held. Price at par. **Proceeds**—To repay bank loans and finance construction.

Household Finance Corp., Chicago

Oct. 9 filed 222,485 shares (no par) common (stated value $10 a share). No underwriting. **Offering**—Stockholders of record Oct. 29 will be given the right to subscribe to the new shares at $17 per share in ratio of one new share for each 10 held. Rights expire Nov. 17. **Proceeds**—Added to working capital.

Indianapolis Power & Light Co. (11/3)

Oct. 9 filed 50,000 shares ($100 par) cumulative preferred and 214,451 shares (no par) common. **Underwriters**—To be supplied by amendment. For preferred (possibly Lehman Brothers). Common by competitive bidding. Probable bidders: W. C. Langley & Co., Shields & Co., White, Weld & Co. (jointly); Otis & Co.; Blyth & Co., Inc.; Lehman Brothers. **Offering**—The preferred will be offered publicly while the common will be offered to common stockholders of record Nov. 5 on the basis of one new share for each four held. Rights expire Nov. 19. Price by amendment. Registration statement covering common became effective Oct. 21. **Proceeds**—For new construction purposes. **Bids**—Bids to underwrite unsubscribed common shares will be received Nov. 3.

Jarnel Lumber Co., Point Pleasant, W. Va.

Oct. 16 (letter of notification) 124,000 shares of common. **Price**—60 cents a share. **Underwriter**—E. W. Hoy, New York. To build plant and for working capital.

Jersey Shore (Pa.) Gas & Heating Co.

Sept. 10 (letter of notification) $25,000 first mortgage sinking fund debentures. Price, par. **Underwriter**—Bioren & Co., Philadelphia. To retire present loan of $20,500 and to add to working capital.

Johnson Automatics, Inc., Boston

Oct. 10 (letter of notification) 95,000 shares of common. To be sold at market. **Underwriter**—George F. Breen, New York. For additional working capital. Issue will be placed privately.

Koch Chemical Co., Winona, Minn.

July 22 (letter of notification) 60,000 shares ($1 par) common. Price—$5 a share. Underwriter—H. P. Carver Corp., Boston. To retire debt and for working capital.

● **Laurel (Md.) Harness Racing Association, Inc.**

Oct. 23 filed $500,000 10-year 6% cumulative income debentures and 125,000 shares (1¢ par) common. No underwriting. **Price**—$1,001 per unit, consisting of $1,000 of debentures and 100 shares of common. **Proceeds**—Proceeds will be put in escrow and will not be used before definite dates for a meet have been assigned to the association by the Maryland Racing Commission. **Business**—Operation of race track.

Legend Gold Mines, Ltd., Toronto, Canada

June 27 filed 300,000 shares ($1 par) common treasury stock. Underwriting — To be supplied by amendment. Price—50 cents a share. Proceeds—To develop mining properties. Business—Mining.

● **Lemke (B. L.) & Co., Inc., New York (11/6)**

Oct. 22 (letter of notification) 75,000 shares (50¢ par) common. **Price**—$3.62½ a share. **Underwriter**—F. R. Lushas & Co., Inc., New York. To pay off bank loans and for working capital.

Liberty Loan Corp., Chicago (11/17)

Sept. 25 filed 100,000 shares ($10 par) 75-cent cumulative convertible preferred, and 100,000 shares of Class A common, reserved for conversion of the preferred. **Underwriter**—Sills, Minton & Co. **Price**—$15 a share. **Proceeds**—To reimburse treasury for cost of redeeming 50-cent preferred.

Lock Nut Corp. of America

Oct. 6 (letter of notification) 24,000 shares of 5% cumulative convertible preferred stock (par $12.50). **Underwriter**—Ray T. Haas, Chicago. **Price**—$12.50 per share. General corporate purposes.

Macy (R. H.) & Co., Inc., New York (11/6-7)

Oct. 22 filed $20,000,000 25-year 2⅞% sinking fund debentures, due Nov. 1, 1972. **Underwriters**—Lehman Brothers and Goldman, Sachs & Co., New York. Price by amendment. **Proceeds**—To pay off $7,400,000 of notes and for expansion and improvement program estimated to cost $25,000,000 during next five years.

Manhattan Coil Corp., Atlanta, Ga.

May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. Underwriter—Kirchofer & Arnold, Inc., Raleigh, N. C. Price—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. Proceeds—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

Massachusetts Bonding and Insurance Co., Boston (11/7)

Sept. 19 filed 100,000 shares ($5 par) capital stock. **Underwriter**—Geyer & Co., New York. **Offering**—Offered for subscription to stockholders of record Oct. 7 at $26 per share on the basis of one new share for each four held. Rights expire Nov. 6 and unsubscribed shares will be sold publicly. **Proceeds**—For expansion of business.

Merritt Chemical Co., Inc., Greensboro, N. C.

Oct. 1 (letter of notification) 60,830 shares ($1 par) common of which 19,537 shares will be offered to stockholders at $2.50 a share and 41,293 shares will be offered publicly at $3 a share. **Underwriter**—Main Line Investment Co., Merion Station, Pa. For expansion of business.

● **Modern Wholesale Co., Columbia, S. C.**

Oct. 22 (letter of notification) $100,000 of preferred stock. **Price**—$100 a share. No underwriting. Increase of capital and construction of warehouse facilities.

Munising Wood Products Co., Inc., Chicago

Sept. 29 filed 50,000 shares ($10 par) 5% cumulative convertible preferred and 100,000 shares ($1 par) common. **Underwriters** — Straus & Blosser and Brailsford & Co., both of Chicago. **Price** — $10 a preferred share and $6.12½ a common share. **Proceeds** — The securities are being sold by 12 stockholders who will receive proceeds.

● **Mutual Telephone Co., Honolulu**

Oct. 24 filed 150,000 shares ($10 par) preferred. No underwriting. **Offering**—The shares will be offered for subscription to common stockholders. **Price** — $10 a share. **Proceeds**—To pay off bank loans used to finance construction. **Business**—Telephone business.

● **Myer-Bridges Co., Louisville, Ky.**

Oct. 24 (letter of notification) $250,000 6% cumulative preferred ($25 par). **Price**—$26.50 a share. **Underwriter**—The Bankers Bond Co., Louisville, Ky. To reduce bank loans and for working capital.

Nashville (Tenn.) Corp.

Oct. 7 filed 820,834 shares ($1 par) common. **Underwriter**—Avco Manufacturing Corp., parent of Consolidated Vultee Aircraft Corp., which, in turn, is parent of the registrant, has agreed to purchase shares not subscribed for otherwise. **Offering**—The shares will be offered to Consolidated's common stockholders Nov. 6 on the basis of two shares of Nashville common in return for one share of Consolidated common and $18 cash. Rights expire Nov. 28. The exchange of common is part of a program whereby Consolidated will transfer the assets of its Nashville division to the registrant. **Proceeds**—For working capital.

● **New England Butt Co., Providence, R. I.**

Oct. 22 (letter of notification) 1,000 shares (no par) common. **Price**—$100 a share. **Underwriter**—Barrett & Co., Providence, R. I. For purchase of machinery and equipment and for working capital.

● **New London Freight Lines, Inc., Riverhead, N. Y. (11/10)**

Oct. 28 (letter of notification) 1,950 shares of common stock (par $100). **Underwriting**—None. Pay reconversion costs of vessel and for working capital.

● **Northern Indiana Public Service Co., Hammond, Ind.**

Oct. 29 filed 272,694 shares ($20 par) cumulative preference stock. **Underwriters**—Central Republic Co. Inc., Chicago; The First Boston Corp., and Blyth & Co. Inc., New York. **Offering**—For subscription by common stockholders on basis of one preferred share for each eight common shares held. Unsubscribed shares will be offered publicly. **Price**—$21 a share. **Proceeds**—To improve its public utility system. **Business**—Public utility.

● **Northwestern Public Service Co., Huron, S. D.**

Oct. 28 filed 82,000 shares ($3 par) common. **Underwriting**—To be filed by amendment. **Offering**—For subscription by shareholders on the basis of one share for each five shares held. **Price**—By amendment. **Proceeds**—To be added to general funds. **Business**—Public utility.

Orange Concentrates Associates, Inc., Boston

Oct. 21 filed 108,000 shares ($1 par) common. No underwriting. **Offering**—The shares are owned by National Research Corp., parent of the registrant, and will be offered for purchase by its stockholders. **Price**—$7.75 a share. **Proceeds**—National Research will receive proceeds.

● **Peabody Coal Co., Chicago (11/12-13)**

Oct. 23 filed $12,500,000 of 15-year series A first mortgage sinking fund bonds. **Underwriter**—Halsey, Stuart & Co., Inc., Chicago. Price by amendment. **Proceeds**—To finance construction of new mines and modernization of mining properties in Illinois. **Business**—Mining business.

Portland (Ore.) General Electric Co. (11/3)

Oct. 13 filed $6,000,000 of first mortgage bonds, due 1977. **Underwriting**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc., Lehman Brothers, and Merrill Lynch, Pierce, Fenner & Beane (jointly); Halsey, Stuart & Co. Inc., The First Boston Corp., Harriman Ripley & Co., Kidder, Peabody & Co., Equitable Securities Corp. and White, Weld & Co. (jointly). **Proceeds**—For property additions. **Bids**—Bids for the purchase of the bonds will be received at office of Marine Midland Trust Co., Room 232, 120 Broadway, New York City, up to noon (EST) Nov. 3.

Publix Shirt Corp., New York (11/5-14)

Oct. 3 filed 140,000 shares ($1 par) common. **Underwriter**—Reynolds & Co., New York. Price by amendment. **Proceeds** — The shares are being sold by three stockholders who will receive proceeds.

Public Service Co. of Indiana, Inc. (11/3)

Oct. 1 filed $15,000,000 first mortgage bonds, series G, due 1977. **Underwriters**—Names to be supplied by competitive bidding. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Glore, Forgan & Co.; Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., and Harriman Ripley & Co. (jointly). **Proceeds**—About $4,000,000 will be used to reimburse the treasury for expenditures already made and the remainder will go for additional construction requirements. **Bids**—Bids will be received at office of Sidley Austin, Burgess & Harper, Room 2000, 11 South La Salle Street, Chicago, up to noon (CST) Nov. 3.

● **Reading (Pa.) Tube Co.**

Oct. 28 filed 200,000 shares (no par) 50¢ cumulative class A and participating stock, 50,000 shares (10¢ par) class B stock, plus an indeterminable number of class B stock issuable upon redemption of the class A stock. **Underwriter**—Aetna Securities Corp., New York. **Offering**—Class A stock will be offered publicly and class B

(Continued on page 46)

(Continued from page 45)

stock will be sold to stockholders. **Price**—$6 a share. **Proceeds**—To pay bank loans. **Business**—Manufacture of copper tubing.

Rochester (Pa.) Glass Corp.
Oct. 17 (letter of notification) 1,000 shares ($100 par) common. **Price** — $100 a share. **Underwriter** — Kay, Richards & Co., Pittsburgh, Pa. To pay off debt and purchase equipment.

• **Rowe Corp., New York**
Oct. 27 filed 150,000 shares ($1 par) common. **Underwriter**—Hayden, Stone & Co., New York. Price by amendment. **Proceeds** — Shares are being sold by two stockholders—145,800 by Robert Z. Greene (President) and John F. Moran, of New York. **Business**—Maintains and services coin operated merchandising machines.

Seattle (Wash.) Gas Co.
Sept. 4 (letter of notification) $300,000 ($50 par) preferred. **Price**—$50 a share. **Underwriter**—Shea & Co., Boston; and Smith, Landeryou & Co., Omaha, Neb. For payment of loan and current obligations.

• **Seder & Son Molded Products Co. Inc., Fort Collins, Colo.**
Oct. 23 (letter of notification) 15,000 shares ($1 par) common. **Price**—$1 a share. **Underwriter**—John G. Perry & Co., Denver, Colo. To retire loans and for working capital.

• **Sherer-Gillett Co., Marshall, Mich.**
Oct. 24 (letter of notification) 10,000 shares ($1 par) common. **Price**—$6.50 a share. **Underwriter**—First of Michigan Corp., Detroit. For construction purposes and for working capital.

Silver Buckle Mining Co., Wallace, Idaho
Oct. 13 (letter of notification) 1,500,000 shares of (10c par) stock. **Price**—20 cents a share. **Underwriters**—F. E. Scott, Pennaluna & Co., J. E. Scott and Morris George, all of Wallace, Idaho, and John Erickson and Harold Gribble, both of Mullan, Idaho. For mine development.

Southeastern Development Corp., Jacksonville, Fla.
July 29 (letter of notification) 8,000 units consisting of one share ($10 par) 6% cumulative preferred and one share ($1 par) common. **Price**—$12.50 per unit. **Underwriter**—Southeastern Securities Corp., Jacksonville. For working capital.

Southern New England Telephone Co.
Oct. 20 filed 100,000 shares of capital stock (par $100). **Underwriting**—None. **Offering**—To be offered for subscription to stockholders of record Oct. 30, in ratio of one new share for each five shares held. **Price**—$100 per share. **Proceeds**—To repay advances from American Telephone & Telegraph Co. and finance extensive postwar construction program.

• **Southwest Gas Producing Co., Inc., Monroe, La.**
Oct. 10 (letter of notification) 10,950 shares of common on behalf of H. P. Farrington, President of the company. To be sold at market. **Underwriter** — E. H. Rollins & Sons, Inc., agents.

• **Southwest Natural Gas Co., Shreveport, La.**
Oct. 20 (letter of notification) 25,000 shares of common on behalf of R. M. Craigmyle, President of the company. To be sold at market. **Underwriter**—Craigmyle, Pinney & Co., New York.

Southwestern Investment Co.
Oct. 8 filed 15,000 shares of 5% cumulative sinking fund preferred (par $20) and 21,499 common shares (no par). **Underwriters**—Preferred: The First Trust Co. of Lincoln, Neb.; common: Schneider, Bernet & Hickman. **Purpose**—To increase working capital. **Offering**—To be offered for subscription to stockholders, the preferred at par and the common at $15 per share.

Spartan Tool & Service Co., Houston, Texas
Sept. 26 filed $1,200,000 of 4% subordinated debentures, due 1955, and 120,000 shares ($1 par) common. Above securities to be offered only in combination with certain securities of Well Service Securities Co., in units of $1,000 of subordinated debentures and 100 shares of common of the company and $92 principal amount of 4% 7½-year notes due 1955 and one share of common (par $1) of Well Service Securities Co. at $1,193 per unit. **Underwriting**—In addition, Well Service Securities Co., an affiliate, will sell 110,000 shares of common of Spartan to Spartan's officers and employees at par. **Proceeds**—To provide working capital.

• **Speer Carbon Co., St. Marys, Pa.**
Oct. 28 filed 80,000 shares (no par) common. **Underwriter**—Lee Higginson Corp., New York. **Offering**—To the public. **Price**—By amendment. **Proceeds**—Stockholders are selling 46,234 shares of common and company is selling the remainder. Company will use its proceeds to defray part of the cost of purchasing its leased plant at Punxsutawney, Pa. **Business**—Manufacture of carbon products.

• **Specialty Papers Co., Dayton**
Oct. 22 (letter of notification) 422 shares of cumulative preferred on behalf of N. S. Talbott, Board Chairman. **Price**—$104 a share. To be offered through Breene & Brock, licensed dealers.

• **Springfield (Mass.) Fire & Marine Insurance Co.**
Oct. 29 filed 200,000 shares ($10 par) capital stock. **Underwriters**—The First Boston Corp., and Kidder, Peabody & Co., New York. **Offering**—The shares will be offered to stockholders on the basis of one share for each 2½ shares held. Unsubscribed shares will be sold publicly. **Price**—By amendment. **Proceeds**—To be added to company's capital funds. **Business**—Insurance business.

Standard Oil Co. of Ohio (11/6)
Oct. 2 filed 584,320 shares ($10 par) common. **Underwriter**—F. S. Moseley & Co. **Offering**—Shares initially are offered for subscription to common stockholders of record Oct. 21, in ratio of one new share for each five shares held. Rights will expire 3 p.m. Nov. 5. Unsubscribed shares will be offered publicly through underwriters at $23¾ per share. **Proceeds**—For working capital to meet expanding operations.

• **Texas Eastern Transmission Corp., Houston, Texas**
Oct. 24 filed an unspecified amount of (no par) common. **Underwriter** — Dillon, Read & Co., New York. Price by amendment. **Proceeds** — Proceeds from the sale of the common and $120,000,000 of first mortgage 3½% pipe line bonds, due 1962, which Texas Eastern plans to sell privately, simultaneously with the sale of common, will be used to repay $138,027,000 owed to the United States Government. The debt represents the balance due on the purchase price of "Big Inch" and "Little Inch" pipe lines. **Business**—Operation of the two pipe lines.

Title Insurance Plants Co. of Montana, Union Block, Missoula, Mont.
Oct. 6 (letter of notification) 2,400 shares each of no par common and no par preferred. **Price**—$125 a preferred share. The company will issue one share of common as bonus with each share of preferred sold. To be sold through officers of the company. For operation of business.

• **Trigon Press, Inc., New York**
Oct. 22 (letter of notification) 1,000 shares of preferred and $3,000 shares of Class A common. **Price**—$100 a preferred share and $1 a Class A common share. To be sold through officers and directors of the company. To organize and operate business of publishing photographic pamphlets and magazines.

• **Unistrut Corp., Wayne, Mich.**
Oct. 20 (letter of notification) 100,000 shares of 25 cent stated value common. **Price**—25 cents a share to stockholders of company. No underwriting. To pay off mortgage and for additional machinery and equipment.

United Fish & Cold Storage Co., Juneau, Alaska
Oct. 13 (letter of notification) 150,000 shares ($1 par) preferred stock. **Price**—$1 a share. With every 100 shares of preferred stock the purchaser receives 25 shares of common as a bonus. To be sold through officers of the company. Acquisition of a ship and installation of cold storage equipment for the processing of fish in Alaska.

• **Universal Camshaft Co., Muskegon Heights, Mich.**
Oct. 21 (letter of notification) 5,400 shares (no par) common. **Price**—$10 a share. To pay obligations and for working capital.

Well Service Securities Co., Houston, Texas
Oct. 17 filed $110,400 of 4% 7½-year notes and 1,200 shares ($1 par) common. No underwriting. **Price**—The notes will be sold at face amount and the common at $1 a share. The securities are to be sold in combination with securities of the Spartan Tool & Service Co. (which see). **Proceeds**—The company will use proceeds from the notes for purchase of 110,000 shares of Spartan common and for other expenses. The common is being sold by C. P. Parsons, President of the company.

West Disinfecting Co. (11/6-7)
Oct. 17 filed 12,500 shares (no par) $5 cumulative preferred and 75,000 shares (50c par) common. **Underwriter**—Coffin & Burr, Boston. Price by amendment. **Proceeds**—Of the total, the company is selling 2,500 shares of preferred and 25,000 shares of common. The balance of securities are being sold by 14 stockholders. The company will use its proceeds to repay bank loans and for working capital.

• **White Motor Co., Cleveland, O.**
Oct. 28 filed 275,000 shares ($1 par) stock. **Underwriter**—Hornblower & Weeks, New York. **Offering**—For subscription by stockholders on basis of one share for each 2½ shares held. Unsubscribed shares will be sold publicly. **Price**—By amendment. **Proceeds**—For working capital. **Business**—Manufacture of trucks and buses.

Wickes Corp., Saginaw, Mich.
Oct. 20 filed 770,000 shares ($5 par) common. No underwriting. **Offering**—To be exchanged for stock of U. S. Graphite Corp., Wickes Brothers and Wickes Boiler Co. in connection with a plan to merge the three companies into the registrant.

Wisconsin Investment Co., Milwaukee
Sept. 29 filed 370,000 shares of common. **Underwriter**—Loewi & Co., Milwaukee. **Offering**—Shares initially will be offered to stockholders and unsubscribed shares will be offered publicly through underwriter. **Price**—Based on market prices. **Proceeds**—For investment.

Wisconsin Public Service Corp. (11/5)
Sept. 30 filed $4,000,000 30-year first mortgage bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Shields & Co.; Glore, Forgan & Co., and Harriman Ripley & Co. (jointly); W. C. Langley & Co.; The First Boston Corp. **Proceeds**—To repay short-term bank loans. **Bids**—Bids for purchase of the bonds will be received at Room 1100, 231 South La Salle Street, Chicago, up to 10:30 a.m. (CST) on Nov. 5.

Prospective Offerings

• **Consolidated Edison Co. of New York, Inc.**
Dec. 1 stockholders will vote on authorizing the trustees to make $57,382,600 of debentures convertible into common stock. The debentures are to be offered at 100 to stockholders on the basis of $5 of debentures for each common share held, and unsubscribed balance sold on competitive bidding to underwriters. Probable bidders: Morgan Stanley & Co.; Halsey Stuart & Co. Inc. Debentures are to mature in 15 years and will bear an interest rate to be determined by the trustes but not to exceed 3½%. The conversion price of the debentures will be set at an amount ranging from approximately the market price of the common stock at about the time of the offering of the debentures to not more than 15% above such market price.

• **Elliott Co.**
Dec. 11 stockholders will vote on creating a new class of 110,000 shares of cumulative preference stock, junior to the existing 5% preferred. Public distribution of 60,000 shares of convertible cumulative preference stock is expected to be made in December. F. Eberstadt & Co., traditional underwriter. Stockholders also will be asked to approve a plan to increase authorized common from 436,260 to 1,000,000 shares. Issuance of additional common is not presently contemplated.

• **Indianapolis Power & Light Co.**
Oct. 29 reported company in addition to sale of 50,000 preferred shares and 214,451 common shares now in registration may market between $7-$8,000,000 bonds, the proceeds to be used for new construction. Probable underwriters: Halsey, Stuart & Co. Inc.; Otis & Co., Inc.; Lehman Brothers; Blyth & Co. Inc.

• **Phillips Petroleum Co.**
Oct. 29 company announced it expects to file a registration statement with the SEC Oct. 31 covering about 1,000,000 shares of common. Stockholders of record Nov. 17 will be given the right to subscribe to the stock. Rights will expire on or about Dec. 2. Phillips said it is expected that the offering will be underwritten by a nationwide group of investment bankers headed by The First Boston Corp. Proceeds will be used to retire bank loans which, as of Oct. 10, amounted to $45,375,000.

• **Sunray Oil Corp.**
Oct. 27 Clarence H. Wright, President, announced that the financing in connection with the merger of Pacific Western Oil Corp. and Mission Corp. into Sunray will be accomplished through an increase in funded debt and the issuance of convertible second preferred stock. From about $36,000,000 to $50,000,000 will be required. The amount will depend on the extent to which minority stockholders of Pacific Western accept the cash offer of $68 per share which is to be made by Sunray Oil Corp. It is expected that funded debt will be increased by about $25,000,000. If holders of one-half of the Pacific Western minority stock accept the cash offer, about $34,000,000 of 4½% prior preferred stock will be issued to holders of the present 4¼% preferred stock of Sunray and to minority stockholders of Pacific Western, and about $18,000,000 of convertible second preferred stock will be issued for public offering. Probable underwriter: Eastman, Dillon & Co. The outstanding common stock will be increased to about 9,300,000 shares. No public offering or other sale of common stock will be made.

• **Virginia Electric & Power Co.**
Oct. 28 reported company has under consideration plans for raising some $22,000,000 to finance its construction program. The offering, it is thought, may include $10,000,000 in bonds and approximately $12,000,000 in preferred stock. The financing plan, it is said, may be ready for the market by March next. Probable bidders include Stone & Webster Securities Co.; Halsey, Stuart & Co. Inc. (bonds only).

• **Waukesha Motor Co.**
Oct. 21 stockholders voted to increase authorized stock from 400,000 to 600,000 shares (par $5). Additional shares are to be offered for subscription to stockholders in the near future on the basis of one new share for each two shares held. Proceeds for working capital, etc.

• **Wheeling & Lake Erie Ry. (11/12)**
The company has issued invitations for bids to be considered Nov. 12 for $3,940,000 of equipment trust certificates. The certificates are dated Dec. 1, 1947, and will mature semi-annually from June 1, 1948, to Dec. 1, 1957. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Lavigne Co. & Johnson To Merge Inv. Business

SPOKANE, WASH. — The brokerage offices of Edwin Lavigne & Co. and O. C. Johnson have been consolidated according to announcement by Levi Austin of Yakima, Wash. who recently purchased the firm organized by the late Edwin Lavigne in 1922. Mr. Austin was manager of the Yakima office. He will continue in charge of Yakima, while Mr. Johnson will act as manager of the Spokane office. The company title of Edwin Lavigne & Co. will be retained.

Both Mr. Austin and Mr. Lavigne are members of the Spokane Stock Exchange.

Mr. Austin has been Superintendent of Schools in the Yakima valley for 31 years. Mr. Johnson, who came to Spokane over two years ago, was formerly with Merrill Lynch, Pierce, Fenner & Beane at Seatle; he has been in the stock brokerage and bond investment business for 18 years.

The firm's Spokane office is in the Radio Central Building. In Yakima offices are maintained in the Mercy Block.

NASD District 13 Receives Nominees

The Nominating Committee of National Associaiton of Securities Dealers, Inc. District No. 13 have presented the following nominations for two Governors and five Committeemen whose terms will expire on Jan. 15.

Board of Governors: Francis Kernan, White, Weld & Co., to succeed Irving D. Fish, Smith, Barney & Co.; Philip L. Carret, Carret, Gammons & Co., to succeed B. Winthrop Pizzini, B. W. Pizzini & Co.

District Committee: Carl Stolle G. A. Saxton & Co. to succeed Richard F. Abbe, Van Tuyl & Abbe; H. D. Knox, H. D. Knox & Co., to succeed Philip L. Carret; John H. Kitche, Geo. D. B. Bonbright & Co., Rochester, to succeed Roy W. Doolittle, Doolittle, Schoellkopf & Co., Buffalo; Paul G. Devlin & Co., Inc., to succeed John F. Wark, Merrill Lynch, Pierce, Fenner & Beane, and James J. Lee, Lee Higginson Corp., to succeed Francis Kernan.

Additional candidates may be nominated prior to Nov. 17. If no additional nominations are received, the candidates nominated by the Nominating Committee will be considered duly elected.

Members of the Nominating Committee were George N. Lindsay, Swiss American Corporation, Chairman; John C. Maxwell, Tucker, Anthony & Co.; Frank Dunne, Dunne & Co.; Michale J. Heaney, Jos. McManus & Co., and Frank C. Trubee, Trubee, Collins & Co., Buffalo.

Reynolds Group Offers Air Products Stock

A group headed by Reynolds & Co. and Laurence M. Marks & Co. on Oct. 24 offered 200,000 shares of Air Products, Inc., $1 par value common stock at $5.25 a share. The money will be used to pay bank loans, purchase equipment, build a plant in the Middle West and for general corporate purposes.

The company, incorporated in 1940, is engaged in the design and manufacture of machinery and equipment for the production of oxygen, nitrogen and other gases; the leasing and sale of such machinery and equipment, the sale of gases in cylinders, the manufacture and sale of welding and cutting equipment and other activities. After giving effect to the current financing, the company will have outstanding 773,306 shares of common stock and 105,323 shares of class A stock.

Goldman, Sachs Group Offers Bonds and Pfd. of Minn. Mining & Mfg.

Goldman, Sachs & Co.; Kidder, Peabody & Co., and Piper, Jaffray & Hopwood headed a public offering Oct. 29 of $10,000,000 of 2¾% sinking fund debentures due Oct. 1, 1967, and 100,000 shares of $4 cumulative preferred stock of Minnesota Mining and Manufacturing Co., makers of Scotch tape, coated abrasives and other products. The debentures are priced at 100¾% and accrued interest and the preferred shares at $102 per share.

W. L. McKnight, President of the Company, stated that proceeds from the sale will be used as additional working capital and in connection with an extensive expansion and improvement program under which unexpended authorizations as of Sept. 1, 1947, aggregated approximately $13,000,000. The major projects included in this program are the construction and equipment of a Scotchlite plant and a plant for the manufacture of miscellaneous products, both near Hastings, Minn., a roofing granule plant at Corona, Calif., an adhesives plant at Los Angeles, Calif., and the expansion and improvement of the general factory and office facilities at St. Paul, Minn.

The company has been a manufacturer of coated abrasives for more than 40 years, but its products have been greatly diversified in the period since 1925. Among the numerous products of the company are Scotch tape (the company's trade name for pressure-sensitive adhesive tape), coated abrasives, adhesives, colored roofing granules, and Scotchlite, a reflective color sign material which is finding an increasing use among highway departments and outdoor advertisers. A recent development of the company is Scotch sound tape, a magnetic recording tape for high quality recordings, which is now being produced in commercial quantities.

The debentures will have a sinking fund, beginning Oct. 1, 1950, sufficient to retire 60% of the issue by maturity. The 100,000 shares of preferred, part of 250,000 shares authorized by stockholders at a meeting Oct. 27, 1947, will be callable in whole, or in part by lot, at $105 per share if redeemed prior to Dec. 12, 1948, with successive reductions thereafter to $102 per share, together with accrued dividends. The sinking fund for this series of preferred will retire for each year after Dec. 12, 1951, 2% of the shares issued prior to such year.

In addition to the new debentures and preferred stock, there are 1,951,530 issued shares of common stock listed on the New York Stock Exchange.

Rocky Mt. Group IBA To Hold Election

DENVER, COLO.—The annual election for Chairman, Vice-Edward B. Coughlin, Coughlin & Rocky Mountain group of the Investment Bankers Association of America will be held Oct. 30. Edward B. Coughlin, Coughlin & Co., Chairman of the group, has named a Committee, including Donald F. Brown, Boettcher & Co.; J. H. Myers, Harris, Upham & Co., and Fred C. Ulrich, Peters, Writer & Christensen, Inc., to present candidates.

The Rocky Mountain group includes investment firms in Colorado, Wyoming, New Mexico, Utah and Montana.

Idaho Power Co. Com. Stock at $33.50 a Share

An underwriting group headed by Blyth & Co., Inc., and Lazard Freres & Co. are offering today (Oct. 30) an issue of 100,000 shares of common stock (par $20) of Idaho Power Co. at $33 50 per share. This offering is simultaneous with offering by Wegener & Daly, Inc., Boise, Idaho, of 35 000 shares of the power company's 4% preferred stock at $102 per share.

Proceeds from the sale of the preferred and common stocks will be used for additions to the company's production, transmission and distribution facilities, including repayment in full of short term bank loans aggregating $3,000,000 made by the company for interim financing of such facilities now under construction.

Among the principal projects are the continuing construction for the installation of 52,800 kilowatts of additional hydro-electric generating capacity at the company's Lower Salmon Development on the Snake River in southern Idaho at an estimated cost of approximately $9,425,000 and 15,700 kilowatts of additional capacity at the company's Malad development on the Malad River estimated to cost approximately $3,613,000, and additional distribution facilities at an estimated cost of approximately $1,000,000. Balance of cost of the construction program will be supplied from the company's treasury and from additional future financing.

Associated with Blyth & Co., Inc., and Lazard Freres & Co. in the common stock offering are: A. G. Becker & Co. Incorporated; Central Republic Co. (Inc.); Graham, Parsons & Co.; Hallgarten & Co.; Wm. P. Harper & Son & Co.; Kidder, Peabody & Co.; Morgan Stanlev & Co.; Pacific Northwest Co.; Paine-Rice & Co.; Shields & Co.; Wegener & Daly, Inc., and Whiting, Weeks & Stubbs.

Two With F. H. Breen Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Connell G. Cowan and Walter Federman have become connected with F. H. Breen & Co., 609 South Grand Avenue.

Joins Frank & Belden

Special to THE FINANCIAL CHRONICLE

MINNEAPOLIS, MINN. — Arthur M. Molmer is now with Frank & Belden, Inc., Roanoke Building.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

The domestic affairs "ball" to keep your eye on is one Dr. Edwin G. Nourse. He is Chairman of the President's Council of Economic Advisers. Thus he heads up the official White House "brains trust" on domestic economic matters.

* * *

Dr. Nourse is the key to understanding the totally unexpected special session call—unexpected as to its earliness—Nov. 17. It was Dr. Nourse almost alone among the President's official family who urged that some legislation be proposed aimed at stopping the rise in the price level. The State department always has been for the special session. Most of the rest of the Cabinet has been against it—and so have most of the Congressional Democrats.

* * *

Nourse's advice apparently prevailed against Cabinet members on various subjects. Thus, Interior Secretary Krug only a few days before the special session call, said that allocations and controls were not necessary to adjust domestic industry to foreign aid. And Krug was the official charged with doping out the relationship of foreign aid to U. S. resources. Agriculture is not enthusiastic for grain trade margin control legislation.

* * *

So first watch for the details as to what Nourse proposes for relating the domestic economy and finances to foreign aid. When you see what those steps are, you will get a pretty good idea what President Truman is thinking. You will also then know what Mr. Truman wants to put over with Congress. The Nourse report is expected this week, maybe before this issue gets to you.

* * *

After that, keep an eye generally on Nourse, for his thinking will be reflected in White House thinking on many things.

* * *

Dr. Nourse—who prefers to be called "mister"—was Vice-President of the Brookings Institution before he became head of the "brains trust." This Council was set up under the "full employment" act of 1946. The latter, in turn, was originally intended to guarantee by government fiat the miracle of full employment at high wages. All that was left when Congress got through with the "full employment" plan was the Council of Economic Advisers. Hence everybody expected that the "Economic Council" would slip into anonymous obscurity—an accidental vestige of a dead scheme.

* * *

Nourse felt otherwise. Tall, elderly, dignified, Dr. Nourse gives the initial appearance of being a befuddled professor. Then he slips in some breezy slang at the most unexpected times. He is not befuddled. He made up his mind at the outset he was going to make something of the job of being Chairman of the Council of Economic Advisers — or else. He has succeeded to the point where the White House listens to him with deep respect.

* * *

Important as he may be in influencing White House thinking, Nourse does not run the whole show. That will appear when the President opposes an income tax cut. Republicans plan to throw that back into the White House teeth at the first opportunity. Yet the negative, no tax cut idea, is one of the Truman-Nourse main reliances for the fight against inflation.

There is much speculation as to whether Mr. Truman will get anywhere with a special session. The leading Congressional committees were due anyway to meet next month, with or without a special session. These committees could not whip legislation into shape before December. Shortly after the middle of December, Congress may be expected to go home until after New Year's. The earlier special session just starts the political dog fight a little sooner.

* * *

On the other hand, if Mr. Truman can get the stop-gap aid through before the holiday recess, he will consider the early special session justified.

* * *

Here is a pre-view of the tax situation: Unless stopped, House Republicans will plunk the new income tax reduction bill into the hopper Nov. 17 — the day the special session opens. This bill will provide for a personal income tax cut of $4 billion. Three billion, 400 million of this cut will come from reduced individual income tax rates. Six hundred million will come from authorizing married taxpayers in all states to file separate returns.

* * *

Note — $600 million is the official Congressional estimate from "split" returns, $100 to $200 million less than other estimates. To hold the revenue curtailment to $4 billion, Republicans will cut the rate in the middle brackets—the group where most of the advantage will accrue from separate returns. The 30% cut on lower incomes — the 10% on the upper — will stay, as in the last vetoed tax bill. The cut on the middle brackets will be limited to something around 17%, versus 20% in the last tax bill.

* * *

Within a short time business executives are going to get more excited than a bunch of kids outside a toy store window in mid-December. Their excitement will come when the recommendations of the Magill committee for tax reform are spread on the records of the Ways and Means committee hearings, early next month.

* * *

The committee headed by Roswell Magill will have some fetching displays. There will be attractions for every businessman's Christmas stocking. But don't get excited, yet. There is still some heavy plate glass between the toys and their coveters. Santa won't come this year, probably not next.

* * *

First off r e a l i z e that the Magill committee is studying the whole subject. No overall tax revision can include many of the changes long needed to promote tax equity, business incentives. Too much revenue would be lost if that were the case. And Republicans, planning a $4 billion individual income tax cut, thus will have to limit what they propose in the way of business tax relief in the overall tax revision bill. Furthermore, time will work against enactment in 1948 of the overall revision bill. The target date for getting this bill out of committee is March 15—hardly enough time for final enactment next year.

* * *

Before getting too excited over the specific, enticing proposals of the Magill committee, also bear in mind that this committee will not write the tax bill. It was just hired to do a lot of the brain work for the House Ways and Means committee. The latter might adopt all, or none of it. You are going to hear kind words also from the Administration side about the need for business tax relief. Secretary Snyder has been saying all this year that if individual income tax reduction is held up, overall tax revision can be undertaken. He will sing the same tune henceforth, only louder. It is safe, because Republicans plan to sidetrack the personal income tax cut for nothing.

* * *

There will also be a lot of talk about taxing cooperatives. There is substantial sentiment for removing the tax exemption of some of the larger, more successful cooperatives. When and if there is an overall revision bill, some of the earnings investments of the tax exempt groups might be caught. But any concentrated drive to remove the exemption of the cooperatives is too much like taking on an unnecessary enemy in an election year. Then, too, it takes a long build-up—hearings and the like—to show what tax exemption means, before sentiment can be mobilized against it.

* * *

There now appears to be little doubt but that the Herter committee will play a very large part in shaping the policy of the Republican leadership toward the whole foreign aid question. This is the committee which toured Europe to study the subject. Standing committees (appropriations, foreign affairs, and the like) will hammer out the aid legislation. Their main policy directives will come from above, from the leadership, which will lean heavily on Herter's group.

* * *

Here are some of the things the Herter committee shortly will say in its report: Foreign aid on a substantial scale is needed to stop Communism. The total of needs, however, is not as great as the Paris committee asked. That is because European requests were padded. The padding was not due to European skulduggery so much as to the set-up and mandate to the Paris committee. Realistic readjustment of some European currencies is absolutely necessary if foreign aid shall work. After readjustment must come stabilization. England perhaps presents the toughest long-term economic rehabilitation job of all.

* * *

Administration sources indicate that serious thought is being given to requiring aid recipients to pay in their own currencies—useless directly to the U. S., but requiring foreign governments to budget the cost. It will keep the foreign governments from thinking U. S. aid is just so much free bread and circuses.

* * *

It now appears that the Export-Import bank will have a tough time resisting pressure for extending foreign aid. Pressure for this will come from Republicans as well as from the Administration. Its job will be to make loans for some categories of financing between heavy capital goods and food and fuel—like farm machinery. Reason for pushing E-I bank into this: It will look a little better budgetwise, being made to appear to be an asset.

* * *

Don't cry too much about the underpaid government executive who has to leave his $10,000 salary to take $50,000 with somebody else. Without naming any names, if you examine a few of their backgrounds, you will find that they are boys who seldom made their way ouside the government world. The government is continually letting young law graduates eventually get big jobs. They are offered big dough because industry wants to buy their government background, and way around Washington. Then, too, many business executives do a turn in the government, some times out of Christian charity and some times to learn what goes on down here.

* * *

Believe it or not, but there is a committee still studying a possible fundamental alteration of the patent laws. This committee was appointed in April 1945 by the then Commerce Secretary Wallace, at the request of President Truman. But this committee will not propose a revolution in the patent laws in 1948—"because next year doesn't look like a time for careful consideration of such a subject," as one member explained it.

BUSINESS BUZZ

"That's Granny—she's old enough to know better but too young to care."